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REPORT TO THE CONGRESS

Fundamental Changes Needed To Achieve A Uniform Government-Wide Overseas Benefits And Allowances System For U.S. Employees

B-180403

Multiagency

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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SEPT. 9, 1974



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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To the Speaker of the House of Representatives
and the President pro tempore of the Senate

This is our report on the fundamental changes needed to achieve a Government-wide overseas benefits and allowances system for U.S. employees.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of Defense and State; and the Chairman, Civil Service Commission.

Thomas P. Blasko

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
CSC	Civil Service Commission
DOD	Department of Defense
GAO	General Accounting Office
OMB	Office of Management and Budget
USIA	United States Information Agency

DEFINITIONS AS USED IN THIS REPORT

Foreign areas	Any geographic location not under jurisdiction of the United States
Nonforeign areas	Geographic location under U.S. jurisdiction outside the continental United States
Overseas premium	Any benefit and allowance provided as an overseas recruitment and retention incentive

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FUNDAMENTAL CHANGES NEEDED TO ACHIEVE
A GOVERNMENT-WIDE OVERSEAS BENEFITS
AND ALLOWANCES SYSTEM
FOR U.S. EMPLOYEES
Multiagency B-180403

D I G E S T

WHY THE REVIEW WAS MADE

GAO reviewed the system of benefits and allowances for Government civilian employees overseas because of indications that employees in common circumstances at numerous individual posts were not receiving equitable treatment.

Shortly after initiating the review, the Senate Committee on Appropriations requested GAO to make such a review.

FINDINGS AND CONCLUSIONS

At least 50 different benefits, allowances, and privileges are available to U.S. employees serving overseas, depending on their posts and circumstances.

The U.S. Government has about 737,000 employees--649,000 military and 88,000 civilian--from 38 agencies and departments assigned to positions in foreign countries and nonforeign areas (Alaska, Hawaii, and U.S. territories).

Excluded are categories of employees such as local hire and Peace Corps volunteers. About 28,000 civilians are in foreign countries and 60,000 are in nonforeign areas.

Benefits and allowances, exclusive of salaries, amount to about \$1.5 billion annually (\$1.3 billion for uniformed personnel, \$150 million for civilians in foreign countries, and \$100 million for civilians in nonforeign areas). (See pp. 8 and 10.)

GAO found:

--Innumerable differences in types and amounts of allowances available and paid to U.S. civilian employees overseas in different agencies and within the same departments. There are four benefit and allowance systems for these civilians involving different legislative authority, agency regulations, and discretionary decisions by agency officials at varying levels.

For example, the Department of Transportation pays travel expenses to Federal Aviation Administration employees for emergency visits but not to Federal Highway Administration employees. If this benefit is warranted for employees of one agency or bureau, it seems it should be warranted for all. (See p. 18.)

--Significant differences between civilian employees in foreign and nonforeign areas. (See p. 27.)

--Differences between uniformed personnel and civilian employees. (See p. 29.)

--Indications that the lack of uniformity in allowances and benefits result in morale problems to a degree requiring management attention. (See p. 31.)

For the most part, allowances for civilian employees in foreign countries are authorized as an overseas premium to recruit and retain employees or as reimbursement for costs they would not incur in the United States. Some allowances, like the housing allowance, are designed to serve both purposes.

The value of additional benefits and services related to overseas service could be more than an employee's salary. It is questionable whether the post differential allowance, which costs \$36 million a year, and the premium portion of the housing allowance are serving the purposes for which they were authorized. Moreover the overseas premium, which can be as much as 45 percent of salary, seems higher than other systems that GAO checked--Canada and the United Nations. (See pp. 44 and 47.)

Nonpremium overseas benefits and allowances should result neither in financial gain nor loss for an employee but should reimburse him for extra costs of maintaining a standard of living equivalent to that which he could maintain in the United States. The system of nonpremium allowances, as presently managed, permits civilian employees in some instances to realize financial gain. For example, the cost-of-living allowance for civilian employees in foreign countries

includes a factor for housing although these employees receive Government housing or a living quarters allowance. GAO was informed the housing factor would be eliminated after other factors were also studied and revised if necessary. (See p. 52.)

GAO also noted that:

--Unnecessary housing costs were being incurred in foreign countries because of overusing Government-leased housing, which is more expensive than providing housing allowances. (See p. 61.)

--The financial advantage accruing to employees in foreign countries and U.S. territories because many do not pay State and local taxes, although they would pay if they were living in the United States, is not considered in establishing the level of overseas allowances.

Various aspects of overseas benefits and allowances have been studied from time to time by executive agencies and some improvements have been made. Further improvements are necessary to correct the problems noted above.

The benefits and allowances system has evolved over the past half century into a form that is inflexible and difficult to manage, resulting in inequities, morale problems, and excessive costs.

No system exists for aggregating the costs and relating them to purposes served or otherwise providing appropriate visibility and analyses to executive and legislative branch policymakers responsible for funding and managing the aggregate system and for modifying it when circumstances warrant. (See p. 93.)

Generally, Foreign Service agencies have obtained legislative authorization for certain benefits and allowances which the nonforeign service agencies have not. A single unified system for all Government employees overseas is needed.

Responsibility for establishing policies and standards should be vested in an independent policymaking body, and authorizing legislation should be proposed to eliminate present inequities. (See p. 86.)

RECOMMENDATIONS

GAO believes there are several acceptable options for developing and monitoring the implementation of uniform policies and standards for overseas allowances. GAO recommends that the Director, Office of Management and Budget, should decide on the most appropriate option. Options to be considered include:

- Giving the Civil Service Commission this responsibility.
- Establishing an overseas allowance committee chaired by the Office.
- The Office assuming the responsibility.
- Making the Ambassador in each country responsible for developing and recommending to an appropriate body the equitable allowance policies and standards for employees in each country.

Also, the Director, Office of Management and Budget, should:

- Require that authorizing legislation be sought when needed.

- Require (1) clarification of the fundamental purpose of each allowance and benefit, (2) development of objective standards for agency use in evaluating and reporting on their effectiveness, and (3) aggregate annual reporting on the cost and effectiveness of the program to the Congress.

- Adopt a flexible system for paying overseas premiums which will be responsive to recruitment and retention needs and to changes in the employment market. This will require reevaluation of the continued need for the housing and post differential allowances as essential for recruitment and retention.

If continued, consideration should be given to (1) the appropriateness and desirability of a policy of paying excess cost over that normally incurred at the employee's state-side home, and (2) improved controls over Government-leased housing.

- Determine whether, and the extent to which, financial savings accruing to an overseas employee from not paying State and local taxes should be considered in setting benefits and allowances.

- Develop an education program for overseas employees concerning benefits and allowances. (See p. 95.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Office of Management and Budget agreed that (1) considerable improvement could be achieved in administration of overseas benefits and allowances and (2) a unified

system for civilian employees should be established. It favored a system administered by the Civil Service Commission.

The Civil Service Commission endorsed GAO's proposals saying the need was legitimate and serious.

The General Services Administration said a Federal allowance committee with representatives from agencies would be more effective than a single agency.

The Atomic Energy Commission believes an agency with employees overseas would more fairly represent the interest of employees. (See p. 90.)

The State Department and the Agency for International Development agree that much can be done to equalize the system. They believe administration should remain with the Secretary of State because it is the key to effective overseas operation. (See p. 90.)

The Office of Management and Budget agreed that:

--A thorough review should be made of the fundamental purposes of each overseas allowance or benefit.

--Cost data should be gathered and reported on each allowance or benefit.

--The overseas premiums and housing and hardship differentials should be reevaluated. (See p. 95.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

This report demonstrates the need for fundamental changes in the overseas benefits and allowances system if the longstanding congressional aim of equality is to be achieved.

Actions have been started to correct problems resulting in certain inequities involving civilian personnel. The Congress may wish to review what is being done to correct these problems in connection with future authorization and appropriation requests.

CHAPTER 1

INTRODUCTION

This review of the system of benefits and allowances for Government civilian employees overseas was undertaken because of indications that employees serving under common circumstances at overseas individual posts were not receiving equitable treatment. A longstanding congressional aim implicit in the body of allowance legislation is that employees overseas serving under common circumstances should receive equitable treatment.

Shortly after initiating the review, the Senate Committee on Appropriations requested us to make such a review.

In 1960 the Congress passed the Overseas Differentials and Allowances Act, Public Law 86-707, September 6, 1960, 74 Stat. 792 (now 5 U.S.C. 5921), extending a number of benefits and allowances to all civilian Government employees overseas which had been available only to Foreign Service employees. Almost immediately questioning about differences in benefits among employees resumed. A December 1962 report of the Committee on Foreign Affairs Personnel, published by the Carnegie Endowment for International Peace, noted that:

"Differences in benefits accorded overseas employees of comparable rank and responsibility in the different foreign affairs agencies should be eliminated to the maximum practicable extent."

The report cited examples of differences in providing air-conditioners and transportation to and from work to different employees at the same post.

The private sector also recognized the need for a systematic way of providing benefits and allowances. Through the use of consulting organizations, considerable progress has been made in equalizing and stabilizing the benefits and allowances of overseas employees for hundreds of U.S. companies.

Questions about differences in benefits among employees and about the appropriate level of benefits and allowances which should be provided are being asked again with considerable vigor by the Congress, U.S. Government executive agencies, various interest groups, and employees themselves.

The 1972 Conference Board¹ report on "Compensating Key Personnel Overseas" describes the importance of responding to individual employee needs, as follows.

"Whatever the type of organization or the method of administration, an effective compensation plan considers and accommodates the needs of the employee. * * * The pressures and impacts generated by service abroad are added to those the employee carries with him from home. Uprooting a man from a job he knows and does well, his children from a generally satisfactory school system, and his wife from a comfortable home and a well-stocked shopping center, and planting them all in an alien culture is a psychological wrench of prodigious proportions."

Our report analyzes major benefit and allowance systems, especially differences between agencies and within departments; indicates excesses which can occur; and suggests improvements, bearing in mind a proper balance between the needs of the employee, fairness among all employees, and, for the Government, an economical system which is simple to administer.

We reviewed the complex benefits and allowances system to evaluate its evolution and how well it satisfied the principles of fairness and economy, to provide a perspective for the Congress and the executive departments in relation to the purposes for providing the benefits and allowances, and to identify the nature of the differences involved.

¹The Conference Board is a New York-based factfinding institution which conducts research and publishes studies on business economics and management experience. It has 4,000 members made up of business organizations, trade associations, Government bureaus, libraries, labor unions, colleges and universities, and individuals.

Appendixes I through XIV are being issued separately.

SCOPE OF REVIEW

We distributed a questionnaire to the 38 U.S. Government agencies having civilian and military employees permanently stationed in foreign and nonforeign areas. Data was furnished to us by the agencies in response to our questionnaire regarding their authorizations, practices, and policies for providing benefits and allowances, as well as the number of employees and the cost of benefits and allowances. Additional follow-on data was obtained by interviews with agency officials in Washington, D.C., and from interviews held with employees stationed in selected foreign and nonforeign areas. The foreign areas included Argentina, Brazil, Canada, Ethiopia, Hong Kong, Italy and Japan. The nonforeign areas included Guam and Saipan.

The primary thrust of this report is on the differences in benefits and allowances provided to U.S. Government civilian employees assigned in foreign and nonforeign areas.

With respect to management, the benefits and allowances discussed in this report are primarily those authorized for the 28 thousand civilian employees assigned to foreign areas. To the extent possible comparisons are made between civilian and uniformed employees. For purposes of comparison and perspective, data is also provided about employees of U.S. private industry, Canadian Government employees, and employees of the United Nations.

See appendix V for an allowance-by-allowance comparison of the United States, United Nations, Canadian, and U.S. private industry systems.

Data from the Central Intelligence Agency and the National Security Agency was excluded from this report because their activities are classified. In addition, agency contract personnel, Peace Corps volunteers, foreign nationals, and local-hire employees were omitted because their special relationship to the U.S. Government as an employer differs widely from the general category of U.S. employees.

We requested specific review and comment on our report from the three agencies responsible for managing and administering the overseas benefits and allowances systems subject to the proposals in our report, the Office of Management and Budget (OMB), the Civil Service Commission (CSC), and the State Department. In addition we forwarded the report to several other agencies on a random basis as an additional assessment of the accuracy of factual data presented. Agencies with few overseas employees and agencies with many overseas employees were included in this distribution. Agency comments are included in appendixes IX through XIV.

DEVELOPMENT OF BENEFITS AND ALLOWANCES SYSTEM

The historical development pattern of the present State Department system for benefits and allowances represents about 60 years of legislative history, influenced by many different political, social, and economic interests. It is important to have a sense of the time, circumstances, and sequence of development in order to have a perspective on the overall system.

Legislation and reasons for some of the more significant allowances are as follows.

<u>Allowance</u>	<u>Year authorized</u>	<u>Reason</u>
Representation	1778	Reimbursement
Post	1916	Reimbursement
Living quarters	1926	Recruitment, retention, and representation
Separate maintenance	1941	Reimbursement
Temporary lodging	1946	Reimbursement
Foreign transfer	1946	Reimbursement
Post differential	1946	Recruitment and retention
Official residence expense	1946	Reimbursement
Home service transfer	1955	Reimbursement
Education	1955	Reimbursement
Supplementary post	1956	Reimbursement
Rest and recuperation	1961	Reimbursement

The U.S. Government officially recognized the need for an allowance in 1778, when it granted a representation allowance to Benjamin Franklin, then Minister to Paris.

The evolution of some of the overseas allowances is discussed below.

1. Post allowance

The post (cost-of-living) allowance was granted in 1916 to compensate for high costs and difficult conditions at many posts due to the war and included increments for quarters, food, and other living expenses. After the war the allowance was reduced until the Congress granted statutory authorization in 1931. The 1946 Foreign Service Act, August 13, 1946, 60 Stat. 999 (now 22 U.S.C. 801 et seq.), continued the authorization, stating that, in view of the spreading inflation now occurring in many foreign countries, this allowance has been especially necessary to enable Foreign Service personnel to live and to perform their duties overseas.

2. Separate maintenance

During World War II (1941-45) the cost-of-living program was expanded to include a separate maintenance allowance for members of the regular service assigned to posts where they were not permitted to take their families.

The 1946 act authorized the allowance beyond wartime conditions for posts considered to have dangerous, notably unhealthful, or excessively adverse living conditions, to enable employees to meet additional expenses of maintaining wives and minor children elsewhere than in the country of their assignment.

3. Post differential

Except for post differential and housing, allowances are usually justified individually to reimburse employees for the added expense incident to overseas service. In justifying the post differential, House Report 2508 states that the service has had considerable difficulty in recruiting and retaining subordinate personnel for some of the more difficult posts; morale was reported low and resignations

high. The differential was not originally authorized for officers because the obligation of service at any post in the world without special inducement or compensation is implicit in their commissions. Subsequently the post differential was authorized for Foreign Service officers.

4. Education allowance

Under 1955 amendments to the 1946 act, Public Law 22, April 5, 1955 (69 Stat. 24), education, educational travel, and home service transfer allowances were authorized, primarily for reimbursement.

5. Medical

Medical expenses for Foreign Service personnel were authorized under the 1946 act, and in 1956 coverage was extended to include dependents. The coverage was extended further in 1967 to continue these benefits even after the death or separation of the employee.

6. Commissary and mess facilities

The 1956 amendments authorized commissary and mess services and recreation facilities for Foreign Service personnel and for other Government employees at the post.

7. Emergency evacuation

Emergency evacuation allowances were added in 1961 and merely provided for advance payment of compensation due employees in the event of an emergency.

8. Other allowances

Many allowances--temporary lodging, foreign transfer, official residence expense, etc.--were initially authorized under the 1946 act, to develop and strengthen the Foreign Service by enabling recruitment from all walks of life.

Several other benefits, such as local transportation to and from work and for recreation and travel for rest and recuperation, have been authorized in various amendments to the

1946 act. Travel for family visits and emergency leave were authorized in 1967.

In 1960 the Overseas Differentials and Allowances Act extended many allowances to civilian employees of all agencies.

CHAPTER 2

OVERSEAS BENEFITS AND ALLOWANCES AND

SCHEDULE OF EMPLOYEE COMPENSATION

In 1973 38 U.S. Government agencies had about 737,000 employees assigned to permanent positions in foreign and non-foreign areas, 649,000 military and 88,000 civilians. These employees receive special overseas benefits and allowances costing the U.S. Government over \$1.5 billion annually.

NUMBER OF EMPLOYEES OVERSEAS AND COST OF BENEFITS AND ALLOWANCES

Employees assigned to foreign countries and nonforeign overseas areas include the traditional foreign affairs employees of the Department of State, the Agency for International Development (AID), and the U.S. Information Agency (USIA); military and civilian employees of the Department of Defense (DOD); and some employees from such organizations as the General Services Administration, the Atomic Energy Commission, GAO, and the Department of Transportation. Data on cost of overseas benefits and allowances for these employees was not available, on a regular basis. Therefore we used the 1972 data because the time required and the difficulty experienced in collecting the data precluded updating. Also, except for a change in military personnel in Southeast Asia, the number of employees and costs remain about the same. A total of 627,000 U.S. Government personnel were stationed in foreign countries in 1972. In addition, 50,000 were stationed in U.S. territories and 105,000 were assigned to Alaska and Hawaii. Of these 692,000 were military forces and 89,548 were Government civilians.

We distributed questionnaires to the 38 U.S. Government agencies asking for data on the number of employees in foreign countries and overseas and the cost of benefits and allowances. Many agencies qualified their answers to the questionnaires on the basis that they did not maintain records conducive to answering all our questions. As a result, the schedules include estimates and incomplete data; nevertheless, we believe the data will be useful to indicate the magnitude of benefits and allowances.

A consolidated schedule is presented below. Appendix I shows the number of employees by region, appendix II shows the number of employees by agency and country, and appendix III shows obligations by benefit and allowance.

Number of U.S. Government Citizen Employees
Reported as Stationed Overseas on June 30, 1972 (note a)
and Funds Reported as Obligated for Allowances and
Benefits for these Employees During FY 1972

Agency	Number of employees overseas on June 30, 1972			Total
	Foreign countries	U.S. territories	Alaska and Hawaii	
Foreign affairs agencies:				
State Department	5,428	1	11	5,440
AID	2,880	-	-	2,880
USIA	1,074	-	2	1,076
Total	<u>9,382</u>	<u>1</u>	<u>13</u>	<u>9,396</u>
DOD:				
Military	599,000	29,000	64,000	692,000
Civilian	16,347	9,011	26,209	51,567
Total	<u>615,347</u>	<u>38,011</u>	<u>90,209</u>	<u>743,567</u>
Other departments:				
Agriculture	181	446	650	1,277
Commerce	117	116	764	997
Health, Education, and Welfare	110	372	1,438	1,920
Housing and Urban Development	1	113	80	194
Interior	115	321	2,128	2,564
Justice	324	295	174	793
Labor	21	-	-	21
Transportation	886	1,336	5,467	7,689
Treasury	187	435	393	1,915
Total	<u>1,942</u>	<u>3,434</u>	<u>11,094</u>	<u>16,470</u>
Independent agencies:				
Selective Service System	-	115	38	153
Foreign Claims Settlement Commission	-	4	-	4
CSC	-	-	38	38
Tennessee Valley Authority	5	-	-	5
Export-Import Bank	2	-	-	2
National Labor Relations Board	-	25	5	30
National Credit Union Administration	-	1	5	6
Postal Service	-	2,451	2,990	5,441
General Services Administration	17	58	117	92
National Science Foundation	9	-	-	9
Federal Maritime Commission	-	2	-	2
Federal Communications Commission	-	5	21	26
Atomic Energy Commission	14	6	4	24
Veterans Administration	21	1,199	134	1,354
American Battle Monuments Commission	40	-	-	40
Canal Zone Government	-	3,998	-	3,998
Environmental Protection Agency	6	5	52	63
National Aeronautics and Space Administration	17	-	4	21
Small Business Administration	-	70	65	135
Federal Deposit Insurance Corporation	-	6	7	13
Smithsonian Institution	1	17	-	18
ACTION	238	9	3	250
Total	<u>370</u>	<u>7,971</u>	<u>3,483</u>	<u>11,824</u>
Legislative Branch:				
General Accounting Office	98	-	42	140
Library of Congress	13	-	-	13
Total	<u>111</u>	<u>-</u>	<u>42</u>	<u>153</u>
Federal Courts:				
Administrative Courts	-	79	59	138
Total	<u>627,152</u>	<u>49,496</u>	<u>104,900</u>	<u>781,548</u>

^aIn order to secure this cost data we sent questionnaires to each of 38 agencies which computed cost data on an ad hoc basis using 1972 as a base.

^bDOD civilian overseas housing and dependent school costs are included in the figure for military personnel.

^cDOD totals shown for foreign countries include territory and Alaska and Hawaii obligations. Of the civilian costs, GAO, somewhat arbitrarily, estimates that about one-half is applicable to foreign countries and one-half to U.S. territories and Alaska and Hawaii.

Obligations FY 1972

Foreign Countries	U.S. territories	Alaska and Hawaii	Total
58,248,000	13,000	21,000	58,282,000
25,959,000	-	-	25,959,000
14,497,000	5,000	5,000	14,507,000
<u>98,704,000</u>	<u>18,000</u>	<u>26,000</u>	<u>98,748,000</u>
1,311,509,000	b	-	1,311,509,000
77,016,000	b	-	77,016,000
<u>1,388,525,000</u>	<u>c</u>	<u>-</u>	<u>1,388,525,000</u>
1,565,000	454,000	1,696,000	3,715,000
728,000	261,000	2,302,000	3,291,000
905,000	246,000	2,844,000	3,995,000
11,000	150,000	229,000	390,000
1,143,000	1,289,000	4,776,000	7,208,000
2,464,000	499,000	589,000	3,552,000
133,000	-	-	133,000
3,214,000	5,828,000	19,068,000	28,110,000
1,140,000	261,000	1,002,000	2,403,000
<u>11,303,000</u>	<u>8,988,000</u>	<u>32,506,000</u>	<u>52,797,000</u>
-	36,000	48,000	84,000
-	53,000	-	53,000
-	5,000	70,000	75,000
35,000	-	-	29,000
13,000	-	-	13,000
-	21,000	10,000	31,000
-	1,000	11,000	12,000
-	1,290,000	5,151,000	6,441,000
128,000	16,000	133,000	277,000
71,000	-	-	71,000
-	1,000	-	1,000
-	6,000	60,000	66,000
126,000	12,000	19,000	157,000
201,000	677,000	271,000	1,149,000
259,000	-	-	259,000
-	8,416,000	-	8,416,000
20,000	4,000	57,000	81,000
116,000	10,000	16,000	142,000
-	53,000	247,000	300,000
-	12,000	14,000	26,000
2,000	65,000	-	67,000
2,104,000	88,000	13,000	2,205,000
<u>3,075,000</u>	<u>10,766,000</u>	<u>6,120,000</u>	<u>19,955,000</u>
499,000	-	131,000	630,000
99,000	-	-	99,000
<u>598,000</u>	<u>-</u>	<u>131,000</u>	<u>729,000</u>
-	43,000	103,000	146,000
<u>1,502,205,000</u>	<u>19,815,000</u>	<u>38,886,000</u>	<u>1,560,906,000</u>

PROFILE OF U.S. CIVILIAN EMPLOYEES
ABROAD AND THEIR COMPENSATION AND BENEFITS PACKAGE

There are at least 50 different benefits, allowances, and privileges available to U.S. employees overseas. Of the 50 available, 9 relate to the cost of moving the employee and his family to a foreign post and establishing a home, 17 are available because of circumstances at the post, 5 are available for emergency circumstances, 8 are related to official business, and 11 are personal and have a direct and indirect effect on salary.

Data is lacking with which to make accurate estimates of the cost to the Government, the gross value to individuals, or net real value to them of all benefits, allowances and privileges.

Information is not readily available in Washington concerning the total compensation and benefits package for civilian employees assigned to foreign areas. An official of the State Department, which establishes rates and payment data for the most significant allowances, informed us that they had no complete report of average cost of benefits and allowances per employee and that total cost for many of the allowances was not available in Washington. Occasionally, for limited purposes some data had been prepared to show the compensation and benefits packages for overseas employees. Usually, however, it had little meaning because some allowances were included while others were excluded. For instance, AID recently reported the salaries, post differential, education allowance, and housing for its employees in Thailand. Based on this report, the average compensation and benefits was \$29,000 per employee. Other allowances, however, were omitted which limited the usefulness of the data. (See app. VI for a breakdown by salary group.)

In regard to the lack of data, OMB said:

"In general, budget and statistical information pertaining to overseas allowances is so inadequate and haphazard that it cannot provide a basis for accurate, equitable compensation policy decisions."

We believe that the Congress and managers of overseas benefits and allowances should have full visibility of the costs to the Government and the gross and net value to employees receiving benefits and allowances.

OMB has measured the net real compensatory effect of five selected allowances as follows.

Other data should also be considered to obtain a full perspective. For instance, a U.N. report comparing U.S. Foreign Service compensation and benefits with those of U.N. employees assigned in Paris shows that benefits for U.S. Foreign Service range from 26 to 106 percent of salary, and for the United Nations 34 to 65 percent of salary. (See app. VII.)

OMB Computed Extra After-Tax Compensation Associated With
Five Selected Overseas Allowances and Benefits, Family of Four, 1970

<u>Base salary</u>	<u>Living quarters allowance</u>	<u>Education allowance</u>	<u>Weighted post allowance</u>	<u>Weighted post differential</u>	<u>Medical benefit (note a)</u>	<u>Cumulative total (note b)</u>	<u>After-tax income (note c)</u>	<u>Extra pay from overseas benefits as a percent of after-tax income</u>
\$10,000	1,441	168	300	842	280	3,031	8,323	34.13%
\$15,000	2,001	263	383	1,237	280	4,164	12,825	32.5%
\$20,000	2,133	380	468	1,547	280	4,808	16,775	28.7%
\$25,000	2,340	498	468	1,800	280	5,386	20,465	26.3%
\$30,000	2,687	608	468	2,201	280	6,244	23,917	26.1%

^aThis extra pay for this item would apply only to employees in foreign areas eligible to receive Foreign Service Act medical benefits.

^bThis cumulative total includes all five extra pay items; it is unlikely that many employees would receive all five concurrently, but receipt of two or three at one time would be common.

^cDerived from CSC, salary table 53, 1970, at each base salary level.

AGENCY COMMENTS AND GAO EVALUATION

State Department officials agreed that the Congress should have the benefit of the best estimates available on gross value. We are presenting OMB's estimate of the net value because no better data is available. We are recommending in this report (see p. 93) that better data can and should be developed.

In September 1973 the State Department commented on the OMB computation of the compensatory effect of allowances. State Department officials believed it would be useful to have a better understanding of the cumulative impact on the compensation of individual employees and recommended that such a study be made.

In April 1974 State Department officials told us that no further studies had been made and that additional information was not available. It might, however, be developed, given sufficient time.

CEILING ON ALLOWANCES FOR NONFOREIGN AREAS

An allowance based on living costs and conditions of environment for employees stationed outside the continental United States or in Alaska and Hawaii is authorized by section 5941, title 5, United States Code. The allowance may be paid as a cost-of-living allowance, when living costs are substantially higher than in the District of Columbia. The allowance may be paid as an environmental or hardship allowance when environmental conditions differ substantially from those in the United States. The total paid under this section may not exceed 25 percent of the rate of basic pay which is also tax free when paid as a cost-of-living allowance. The payment is taxed when paid as a hardship allowance. In some locations other benefits, allowances, and privileges are available to employees. For instance, on Guam some employees have access to the military post exchange and commissary. Also the usual expenses incident to permanent transfer are provided.

CHAPTER 3

NEED FOR A UNIFIED SYSTEM OF POLICYMAKING

AND RULES

In providing benefits and allowances for U.S. Government employees overseas a basic principle is that, except for those differences justified by differing circumstances of condition of service, payments should be equitable among all employees at each post and between posts. Our review showed that differences existed between:

- Types and amounts of benefits and allowances available and paid to U.S. civilian employees overseas in different agencies and within the same department, primarily caused by differences in (1) legislative authority, (2) agency regulations, and (3) discretion of agency officials at various levels.
- Civilian employees in foreign areas and nonforeign areas because they received benefits and allowances under different systems.
- Uniformed personnel and civilian employees.

Employees believed inequities and morale problems exist involving each of the 26 benefits and allowances we inquired about. We interviewed 249 employees in foreign and nonforeign areas. Their complaints, for example, varied from 1 percent complaining against official residence expense allowance to 53 percent complaining against the post exchange and commissary operations.

These differences primarily resulted because there are four different benefit and allowance systems for U.S. Government employees. They affect morale, result in inequities among employees, and may be counterproductive to the underlying purposes for which the benefits and allowances were authorized.

DIFFERENCES BETWEEN AGENCIES AND WITHIN DEPARTMENTS

Special needs may justify differences for employee classes, such as Foreign Service, Panama Canal Company, or

uniformed personnel. We believe such needs should be specifically justified and explained.

Some of the differences in the 50 benefits and allowances for Government employees which may contribute to morale problems are presented below. A more complete agency-by-agency comparison is included as appendix IV.

Legislative differences

Current laws authorize benefits for employees of certain agencies while employees of other agencies are denied the same benefits.

Title 22 of the United States Code accounts for many of the benefits and allowances available to certain agencies (hereinafter referred to collectively as foreign affairs agencies), such as the Department of State, AID, and USIA. The Federal Aviation Administration, and the Department of Agriculture receive the same benefits and allowances authorized by title 22. Many of the benefits and allowances authorized by title 22 are not authorized for other agencies (hereinafter referred to collectively as nonforeign affairs agencies), including the Departments of Treasury, Justice, the Interior, Commerce, Defense and other civilian agencies, because they lack the appropriate legislative authority. It seems that, if these benefits and allowances are warranted for employees of one agency or bureau, they should be warranted for all, such as:

1. Travel for rest and recuperation
2. Travel for emergency visitation
3. Travel for medical purposes
4. Medical treatment expenses
5. Shipment of privately owned vehicles

1. Travel for rest and recuperation

Travel expenses are paid for employees and their families serving at posts specifically designated by the Secretary of State as having difficult living conditions. Employees having salaries \$11,000 or less are required to pay the first \$50 of travel costs, and those having salaries of more than \$11,000 pay the first \$100. To qualify for rest and recuperation travel, an employee must be assigned to one or

more of these posts for at least 2 years, unbroken by home leave. Agencies authorizing this allowance for all civilian employees follow.

ACTION
AID
Agriculture
GAO
Library of Congress
State
USIA

Fifteen agencies in eligible foreign areas are not authorized to provide this allowance to civilian employees, and two departments provide it to employees of one bureau but not to others.

DOD civilian and military personnel and the Coast Guard are authorized a comparable benefit called environmental and morale leave. Normally one trip a year on a space-available basis on military aircraft is provided without charge, but local commanders may permit additional flights.

2. Travel for emergency visits

Travel expenses for up to 2 round trips a year are paid for employees to visit their families in emergency situations involving personal hardship. The employees pay (1) 10 percent of the commercial fare or \$100, whichever is less, if their salaries are \$11,000 or less and (2) 25 percent or \$200 if their salaries are more than \$11,000. Military airlift command facilities should be used whenever possible. All civilian employees of the following agencies are authorized this benefit.

ACTION
AID
Agriculture
GAO
Library of Congress
State
USIA

Fifteen agencies have civilian employees in eligible foreign areas who are not authorized this allowance. The

Transportation Department is authorized to provide this allowance to Federal Aviation Administration employees but not to those of the Federal Highway Administration. The Treasury Department is authorized to provide this allowance to employees of the Office of International Affairs but not to employees of the Bureau of Accounts, Bureau of Customs, Internal Revenue Service, or the Secret Service.

The uniformed services and DOD civilians have no comparable allowance, but uniformed personnel are authorized to travel for this purpose on Military Airlift Command aircraft on a space-required basis for overseas legs of travel and DOD civilians on a space-available basis.

3. Travel for medical purposes

Travel expenses are paid for employees and dependents to the nearest locality having suitable medical care, regardless of whether the medical care itself is at Government expense unless the illness or injury is the result of vicious habits, intemperance or misconduct. All civilian employees of the following agencies are authorized this benefit.

ACTION
AID
Agriculture
GAO
Library of Congress
National Aeronautics and Space Administration
State
USIA
DOD civilians

Twelve agencies have civilian employees in foreign areas who are not authorized this allowance. The Transportation, Treasury, and Justice Departments are authorized to provide this allowance for civilian employees of some of their bureaus and offices but not to others.

The uniformed services, including DOD and the Public Health Service, are authorized this allowance.

4. Medical treatment expenses

Payment of hospitalization and other medical costs for illness or injury while employees are assigned abroad is

authorized for some agencies, and there is no time limit on payment for hospital care. Outpatient treatment is limited to 12 months. Dependents pay \$35 and outpatient treatment is limited to 120 days over a 12-month period.

The following agencies are authorized to provide this allowance for all civilian employees.

ACTION
AID
Agriculture
Library of Congress
National Aeronautics and Space Administration
State
USIA
Veterans Administration

Thirteen agencies have civilian employees in foreign areas who are not authorized this allowance. The Transportation, Treasury, and Justice Departments are authorized to provide the allowance to employees of some bureaus and offices but not to those of others.

Uniformed services personnel, including the Military Armed Forces, National Oceanic and Atmospheric Administration, Public Health Service, and Coast Guard are authorized full medical and dental care in the United States and overseas. Their dependents are authorized medical and dental care on a space-available basis. Military hospitals and dental services are also sometimes available at a nominal charge to civilian employees.

One reason for these differences is that certain agencies do not have the necessary legislation. For example, title 22 serves as the basic foundation for the Department of State's Medical and Health Program, through which State and other foreign affairs agencies provide medical treatment to their employees. The Library of Congress, National Aeronautics and Space Administration, ACTION, and Veterans Administration obtained the necessary legislation to also provide medical treatment to their employees. Other agencies, such as the Interior and Commerce Departments, Atomic Energy Commission, GAO, and Export-Import Bank lack the appropriate legislation.

Different legislative authority exists within the same department. For example, within Treasury, employees of the

Bureau of Customs and the Office of International Affairs are provided such coverage but not employees of the Internal Revenue Service, Bureau of Accounts, or the Secret Service.

One Department of Commerce employee recently had major surgery for which he would have to pay about \$1,500 because his agency was not authorized to provide this benefit. He explained that several letters had been written to Department officials in Washington to determine whether his agency could pay hospitalization expenses, and he was told that it could not.

On the other hand, an employee at the same post working for the Department of State required hospitalization costing \$500, but, because his agency had appropriate legislation, it paid his expenses.

It is difficult for employees to understand why employees at the same post are treated differently, and, in our opinion, this is an inequity.

Shipment of privately owned vehicles

A privately owned vehicle may be transported at Government expense when an employee is assigned to a post for other than temporary duty.

All employees of the three foreign affairs agencies are authorized shipment of privately owned vehicles, and no additional determination is necessary for employees to receive this benefit.

The other civilian agencies with employees in foreign areas are also authorized to provide shipment only if the head of the agency determines it to be in the best interest of the United States. Although it does not happen often, some employees do not receive this benefit.

Shipment for the uniformed services is restricted to members on active duty in ranks E-4 with over 2 years service.

All employees of the foreign affairs agencies are authorized to ship privately owned vehicles pursuant to title 22, which made a blanket policy decision that employees' effectiveness at the overseas post of duty was enhanced thereby.

Employees of nonforeign affairs agencies may also have privately owned vehicles shipped at Government expense to their new station pursuant to title 5 of the United States Code and the Federal Travel Regulations. A privately owned vehicle may be transported, however, only when the head of the agency determines it to be in the best interest of the Government and if

- it will not be primarily for the convenience of the employee and his immediate family;
- local conditions make it desirable from the Government's viewpoint for the employee to have the use of such vehicle;
- use of a privately owned vehicle will contribute to the employee's effectiveness in his job;
- use of vehicle of the type involved will be suitable in the local conditions;
- the cost of transporting the vehicle will not be excessive considering the time the employee has agreed to serve at that official station; and
- the vehicle is of U.S. manufacture, with certain exceptions.

Some nonforeign affairs agencies do not automatically authorize shipments of cars. For instance, the Bureau of Customs makes individual determinations. Shipment of a private vehicle may be denied if official vehicles are available at the post. (See app. IV.)

Agency comments and GAO evaluation

GSA officials said that, in view of the statutory requirement that the head of the agency make the determination of interest, they agree with the observation that differences in the administration of this allowance are attributable to the wording of the legislation.

They expressed some doubt that uniformity would represent the best interest of the Government. They believed a uniform policy would preclude a meaningful determination of Government interest by endorsing transportation of a vehicle

for all employees even when its use may be primarily for the convenience of the employee. They believed several factors at the overseas locations, including climate, terrain, and road conditions, could best be evaluated by the agency head.

On page 95 we have a series of recommendations to correct the problems and inequities resulting from the different systems now used to administer overseas benefits and allowances. One of our recommendations is that a uniform Government-wide system be adopted for civilians. Adoption of this recommendation would not preclude agency head determinations where appropriate. Our recommendations relate to the belief that the separate systems foster the continuance of differences in legislation, regulations, and administrative decisions, many of which are inequitable or unexplained.

GSA also believed that any standards for shipments should be prescribed by GSA.

DIFFERENCES IN AGENCY REGULATIONS

Following is a list of some allowances that are implemented by more than one set of governing regulations.

1. Medical examinations

<u>Examinations provided to</u>	<u>Number of agencies</u>
Employee and dependents on transfer overseas and return	8
Employee and dependents on transfer and employee only on return	1
Employee only on transfer overseas	4
No examination provided	8
Different policies for different bureaus and offices	<u>3</u>
Total	<u>24</u>

The differences occur mainly because legislative authority permits agency officials the discretion to establish health service programs.

2. Loan of household furniture

Household furnishings may be provided to all military personnel and civilian employees of all agencies on a loan basis (except uniformed personnel of the National Oceanic and Atmospheric Administration, the Public Health Service, and the Coast Guard) if it is in the interest of the Government as a means of eliminating transportation costs. The kinds and amounts of furnishings and equipment depend primarily on availability of appropriated funds.

3. Storage and shipment of household goods

The Government pays for transporting employees' household goods and personal effects to new post of assignment and for storage costs when circumstances prohibit shipment. The Government pays the expenses on the basis of maximum weight allowances for combined shipment and storage. The maximum weights differ between agencies.

The foreign affairs agencies are authorized weights ranging from 3,000 pounds for a single Foreign Service staff grade-10 employee to 16,000 pounds for a career ambassador with a family, plus 500 pounds for each dependent over 2 years old. The non-foreign-affairs agencies with employees in foreign areas authorize weights of 5,000 pounds for employees without families and 11,000 pounds for those with families.

Military personnel weight allowances range from 400 pounds for an aviation cadet to 13,500 pounds for officers.

GSA generally agrees that weight allowances should be the same for all civilian employees except perhaps employees whose duties require performance of representative functions. As in the case of most benefits and allowances, there are justifiable differences. If employees need more weight allowance for representational duties, it should be justified on that basis rather than on the basis of rank or grade.

GSA said that it also planned to conduct a study to determine whether the 5,000-pound limitation for employees without immediate family should be removed.

4. Travel for home leave

Implementing regulations set forth Government-wide standards for authorizing the number of days home leave for all civilians, but do not set forth standards for travel used in connection with home leave.

Travel for employees of foreign affairs agencies is generally governed by regulations set forth in the Foreign Affairs Manual pursuant to title 22. Travel for employees of other agencies is generally governed by regulations set forth in the Federal Travel Regulations pursuant to title 5. Even within the scope of these regulations, however, agencies can issue additional regulations governing the mode of travel.

The Foreign Affairs Manual permits any mode of transportation. On the other hand, employees of 17 agencies whose travel falls under the jurisdiction of Federal Travel Regulations are generally restricted to using the most expeditious mode of transportation and are, therefore, generally limited to air travel. On occasion employees may be authorized to use other modes of transportation but, unless it has been determined to be more advantageous to the Government, they must pay the additional travel time and costs required.

Differences in travel for home leave also exist within the foreign affairs agencies. All employees covered by the Foreign Affairs Manual are permitted to use any form of transportation and are considered to be in transit status when the airplane, ship, or other mode of transportation departs. Thus they are entitled to per diem until arrival at the schedule point of termination. AID and USIA policies, however, are that air travel must be used at least one way. Travel by ship may be used both ways, but the employee must pay the difference in cost and the additional time necessitated is charged to annual leave. We were told that one reason for restricting the mode of travel for AID employees was because of budget restraints.

The Merchant Marine Act of 1936 requires the use of U.S.-flag ships, except that foreign flag ships may be used when required for the best interest of the Government. State Department officials also told us that foreign flag

ships may be used when surplus currency is available. At the present time there is no regular U.S. passenger service in the Atlantic and only limited service in the Pacific.

We noted several cases where travel to South America was authorized by ship which resulted in considerably more travel time.

Although travel by ship is probably infrequent, when different criteria are applied for the same allowance, inequities result. This is apparent when employees under one set of regulations can be absent from duties considerably longer than employees under another set of regulations or at other locations.

As stated above, agencies can issue supplementary regulations to employees within the scope of the regulations. For example, the Bureau of Customs issued regulations stating that employees returning to the United States on home leave shall travel by air to save time and expense.

Differences in officials' discretion

Certain allowances, such as supplementary post and living quarters, are regulated Government-wide by application of the Standardized Government Travel Regulations. The head of an agency, however, is permitted to use discretion in establishing policies or in issuing additional regulations that may limit or prohibit payments authorized in the Standardized Regulations.

The present system does not provide uniform treatment for employees as shown in four examples below.

1. Supplementary post allowance

Under the present system, all agencies are authorized to pay supplementary post allowances.

Administrative officials at ACTION headquarters, however, decided that this allowance and others, such as post differential, would not be paid. They believed that compensating for employees' difficult living conditions would be inconsistent with the objective of ACTION. In this case, the difference appears to be justified.

2. Living quarters allowance

Officials have established policies that limit the amounts of payments for some employees and not for others. Different ways that local discretion is exercised is described on page 79.

3. Vacations and holidays

Some agencies allow their employees to observe the holidays of the country where assigned as well as nine American holidays. This practice commonly amounts to 10 or more additional holidays.

Civilian agencies generally follow this liberal policy but DOD rarely observes and some other agencies do not always observe other countries' holidays.

4. Post exchange and commissary privileges

Extending military post exchange and commissary privileges to non-DOD employees overseas is left to the discretion of local military commanders. Our interviews showed that these privileges are normally extended to employees of all U.S. Government agencies.

The regulations provide for surcharges to civilian employees at commissaries. In Ethiopia all patrons are charged a 3-percent surcharge, but non-DOD civilians were charged an additional 12 percent. We were informed that this additional surcharge is assessed in accordance with the regulations to cover operating costs and that the Embassy had agreed with the surcharge several years ago.

Host governments' allowances

Certain privileges extended by host governments are not extended to all U.S. Government employees. In our opinion, these differences affect employee morale. We also noted that these differences were the subject of complaints voiced by members of the American Foreign Service Association.

One difference which was the subject of several comments from the employees we interviewed and from members of the Association concerned the lack of duty-free entry and

diplomatic privileges for nondiplomatic personnel. For example, in Japan diplomatic status is an advantage to the employee because payment of road taxes, automobile inspection, and license plate fees are waived. Employees without diplomatic status must pay these charges, which range from \$118 to \$652, depending on the size and condition of the car. All American employees of civilian agencies in Japan were given diplomatic privileges except for Commerce employees; they were considered counterparts of Japanese trade representatives who were not afforded diplomatic privileges in the United States. The implied loss of prestige had seriously affected the morale of many Commerce employees who had requested reassignment. We also found that DOD employees assigned to the military bases were not extended diplomatic privileges.

Some road taxes may also be covered as part of the miscellaneous portion of the foreign transfer allowance.

DIFFERENCES BETWEEN FOREIGN AND NONFOREIGN AREAS

By law, employees in nonforeign areas are authorized:

1. Allowances relative to a permanent change of station, such as: shipment and storage of household goods and shipment of privately owned vehicles.
2. A non-foreign-area post differential and cost-of-living allowance, the total of which may not exceed 25 percent of basic pay.

Employees in nonforeign areas and employees transferring domestically receive other allowances, such as expenses incurred in connection with sales of residences.

Chapter 2, part 6, of the Federal Travel Regulations authorizes agencies to reimburse a large portion of employees' expenses incurred in selling their old houses and buying new ones when being transferred between points within the continental United States, Alaska, Hawaii, territories and possessions, Puerto Rico, and the Canal Zone. Employees in foreign areas do not receive this allowance, and, in many cases, they consider it a hardship, especially

--when their tours are for relatively short periods, as opposed to the Foreign Service employees who may spend the bulk of their careers in foreign posts and

--when they have no restoration rights to the cities in the United States from which they left, meaning they have no assurance that they will return to their former homes. (Almost all employees recruited for employment overseas with DOD are given reemployment rights to their old job in accordance with Public Law 86-585, July 5, 1960, 74 Stat. 325, 10 U.S.C. 1586.

GSA believes that no hardship accrues from the fact that employees assigned to foreign areas are not reimbursed for expenses of residence transactions. In general, it believes the entitlement to free quarters or to quarters allowances eliminates the need for the entitlement to residence transactions. For those employees transferred from a foreign country to a locality in the United States other than the one from which they left, it believes it may be justified.

Other benefits and allowances may be available, depending on the particular nonforeign area. For example, in Guam such benefits as post exchange and commissary privileges, military clubs and recreational facilities, free outpatient clinic care, and access to rest and recuperation flights are also available to some employees.

Employees in nonforeign areas, such as Guam and Hawaii, do not get Government-provided housing. Foreign Service employees do not receive the home service transfer allowance which employees in nonforeign areas and some other civilian employees in foreign areas do receive.

OMB officials informed us that the differences are primarily because of tradition. A CSC official told us that during World War II it was recognized that some kind of assistance was needed for employees in nonforeign areas, and after the war, allowances were continued.

DIFFERENCES BETWEEN UNIFORMED PERSONNEL AND CIVILIAN EMPLOYEES

Difference relating to travel expenses, emergency visits, medical treatment, and shipment of privately owned vehicles were outlined on pages 16 to 22.

Five additional examples are described below. Comprehensive data on these differences is presented in appendix IV.

1. Home leave

Military personnel in foreign areas do not receive home leave, although their civilian counterparts do. However, space available travel on military aircraft is permitted when regular leave (30 days per year) is taken.

2. Post differential (hardship allowance)

Civilian employees receive payments for service at hardship posts but military do not. About 340 of about 660 posts are hardship posts, and civilians receive hardship allowances at 51 major posts where military personnel are serving.

For example, Addis Ababa, Ethiopia, is designated as a hardship post and employees of all civilian agencies, except ACTION, receive a 10-percent post differential. Uniformed personnel do not receive the post differential, but they do receive a cost-of-living allowance which the civilians do not receive.

Our interviews in Addis Ababa revealed that the military and the civilians misunderstand each others' increments to basic salary. Many uniformed personnel felt that the 10-percent post differential received by the civilians was a cost-of-living allowance and were upset because the 10-percent rate amounted to more than their cost-of-living allowance. The amount of the cost-of-living allowance is determined by rank and number of dependents. The minimum and maximum amount which can be received under these differentials and allowances are as follows:

Post Differential in Addis Ababa for Civilians

<u>Rate</u>	<u>Grade</u>	<u>Yearly amount</u>
10%	GS-1	\$ 479.80
10	GS-18, FSO-1	3,600.00

Cost-of-Living Allowance in Addis Ababa for Military

<u>Index</u>	<u>Grade</u>	<u>Yearly amount</u>
114	E-1	\$ 429.29
114	O-10	1,460.00

On the other hand, although only military received a cost-of-living allowance, civilians were required to pay a 12-percent surcharge at the commissary. The confusion between the hardship differential and cost-of-living allowance was a cause of friction in the American community. The allowances are provided to satisfy needs of employees, to serve as a recruitment and retention incentive, and to reimburse employees for extra costs of living overseas. The differences between employees, however, and the resulting friction are, in our opinion, counterproductive to the purpose for which authorized.

3. Cost-of-living allowance

At mid-calendar-year 1973 we noted that at certain posts in five countries civilians were authorized a cost-of-living allowance but uniformed personnel serving there are not. The countries are Germany, Japan, Malaysia, Tanzania, and Saudi Arabia. For example, in March 1973 a cost-of-living allowance for civilian employees in the city of Tokyo had been authorized. The allowance was granted to compensate employees for the increased cost of living because of dollar devaluations and inflation. The military agencies in the Tokyo area also requested a cost-of-living allowance, but it was rejected for uniformed personnel stationed in most parts of Japan including the Tokyo area but later on November 9, 1973, it was approved. We noted one post where uniformed personnel were authorized a cost-of-living allowance and civilians were not.

A DOD official said that the cost-of-living allowance for uniformed personnel was based on American commissary prices, which were significantly lower than retail prices

in Washington, D.C., on which the cost-of-living allowance is computed for civilians. Also uniformed personnel sometimes use different retail outlets which may result in different prices. Because the basis for computing the allowance differs between uniformed personnel and civilians, we did not make an analysis to determine whether such differences were in fact inequitable.

4. Housing

When not occupying Government quarters, uniformed personnel receive a basic allowance for quarters whether assigned to a domestic or overseas post. An additional housing allowance is authorized only for overseas areas when housing costs exceed the basic allowance for quarters. Civilians receive only a housing allowance when assigned in foreign areas. Uniformed personnel do not, however, always receive equal treatment regarding housing as explained on pages 61, through 67.

5. Medical and dental care

Uniformed personnel receive free medical and dental care at both domestic or overseas posts; civilian employees do not, except that some agencies do provide free medical care to employees assigned to a foreign country. All civilian employees are eligible to participate in insurance programs for which the Government contributes part of the cost.

MORALE PROBLEMS

The 249 employees interviewed in foreign and non-foreign areas believed there were inequities and morale problems involving each of the 26 benefits and allowances we asked about. Their complaints, for example, varied from 1 percent with complaints against the official residence expense to 53 percent with complaints against post exchange and commissary operations. Details are shown in appendix VIII. In addition to the complaints expressed by employees we interviewed, the American Foreign Service Association compiled a list, from comments it received from its members, of some inequities and anachronisms that exist within the present systems.

The following excerpts illustrate the nature of the comments by their members.

- Rent allowances should provide equality for single employees and married couples without children.
- Weight allowances for shipping of household furnishings should be equal between single employees and married couples without children.
- Kindergarten expenses should be paid for civilian employees as well as military personnel. (Note: kindergarten expenses were subsequently authorized by Public Law 93-126(12) (Department of State Appropriation and Authorization Act) and incorporated in regulations on December 23, 1973.)
- Conditions should be equalized for nondiplomatic employees serving in foreign countries which accord free import privileges only to those on the diplomatic list.

Many complaints received by employee organizations were similar to those voiced by the employees we interviewed. State Department officials informed us that they negotiate allowance and benefits grievances with State employees.

NEED TO ADVISE EMPLOYEES OF BENEFITS AND ALLOWANCES

Employees hired for overseas duty are often not aware of the allowances they are to receive and of the general principles governing those allowances. Although some agencies provided briefings on the allowances available, many employees, including those of the Department of State, said they had not received such briefings.

All civilian agencies in Japan except ACTION authorize supplementary post allowances. We interviewed an employee from 12 different agencies in Japan, regarding this allowance and their responses illustrate the confusion that exists.

<u>Department or agency</u>	<u>Supplementary post allowance available</u>
Interior	Yes
State	Yes
Internal Revenue Service	Yes
USIA	Yes
Agriculture	No
Bureau of Narcotics and Dangerous Drugs	No
Immigration and Naturalization Service	No
Library of Congress	No
Atomic Energy Commission	Not sure
Commerce	Not sure
National Science Foundation	Not sure
Federal Aviation Administration	Not sure

The need to inform overseas employees about the allowances and benefits for which they are eligible was recognized as far back as the late 1950s, when a small booklet entitled "What about Allowances?" was being published for all agency employees overseas. The booklet did not, however, cover all allowances but covered only those contained in the Standardized Regulations. It provided general information as to what employees were to receive and aided others who should know the general principles governing allowances and benefits provided for employees. The booklet was last published and made available in 1964. We were told that the Department of State intended to make another booklet available to all Government employees in foreign areas, providing information in nontechnical language about allowances and differentials for which they may be eligible. As April 1974, however, no date had been set for publication.

In our opinion, greater employee familiarity in the nature and purpose of available allowances could be achieved through such a pamphlet as the one proposed by State. Familiarity about allowances could assist in minimizing morale problems, especially when differences among employees seem inequitable but are in fact justifiable.

LACK OF A UNIFIED SYSTEM FOR CIVILIAN AND UNIFORMED PERSONNEL

At least four different bodies of regulations are used in providing major benefits and allowances to U.S. Government employees serving outside the continental United States. They

collectively account for many of the differences, inequities, misunderstandings, and morale problems. For purposes of illustration, we categorized them as the (1) State Department system, (2) DOD system, (3) CSC system for nonforeign areas, and (4) Federal system.

State is indirectly involved also in the DOD and CSC systems. For example, DOD uses data furnished by the State Department to determine rates for certain allowances paid to uniformed personnel. In addition, State analyzes Labor Department statistics for CSC to use in fixing the rates of territorial allowances and differentials paid to U.S. Government civilian employees in Alaska, Hawaii, Puerto Rico, Guam, etc. The State Department also furnishes data to private industry which uses it in determining the amounts of allowances for personnel assigned overseas.

The total spectrum of benefits and allowances for U.S. Government employees includes those provided by individual agencies; cross agreements between agencies; and, in some cases, foreign governments. Legislative and regulatory authorities also vary considerably.

1. State Department system

State's system is the major benefit and allowance system for U.S. Government civilian employees in foreign countries. The other systems mostly supplement State's system when it does not apply to certain employees.

Until the latter part of 1948, pertinent regulations governing overseas benefits and allowances were drafted by OMB (formerly Bureau of the Budget) and approved by the President.

After the Foreign Service Act of 1946 was passed, State officials believed that authority for the allowance provision should be delegated to the Secretary of State. A Deputy Assistant Secretary of State, in a memorandum to the Director of the Bureau of the Budget, stated:

"Frankly, I regard the authority in the Secretary to prescribe all regulations with regard to all allowances granted to the Foreign Service at posts abroad, and to make all determinations and findings which may be necessary thereto, as

being a fundamental and basic part of his responsibility to direct the internal administrative operation of the Foreign Service."

The Bureau opposed this delegation to the Secretary of State in the interest of standardizing regulations generally applicable to government employees as a whole.

Nevertheless on October 22, 1948, after a strong appeal by State, the President delegated authority by Executive Order 10011 (13 F.R. 6263, Oct. 26, 1948) to the Secretary to regulate allowances and differentials for Government civilian personnel in foreign countries.

The current Standardized Regulations (Government Civilians, Foreign Areas), which became effective April 2, 1961, prescribe Government-wide policies and procedures for granting allowances and differentials and for maximum rates to be paid.

These regulations provide for heads of Government agencies to issue their own implementing regulations which may restrict, but not expand, the provisions or rates established by the Secretary. The heads may also, with the approval of the Secretary, grant special allowances in addition to or in lieu of those authorized in the regulations.

The Foreign Affairs Manual also provides benefits and allowances, primarily for the foreign service agencies. Through interagency agreements or by reference under the general authority of the Secretary of State, certain of these also apply to non-foreign-service agency employees.

Nearly all U.S. civilian employees receive allowances and benefits related to their service in foreign countries. The purposes of these include (1) incentives to recruit and retain employees, (2) reimbursement for travel and the extra cost of living overseas, (3) payments for emergencies and certain other hardships, and (4) facilities to insure adequate representation of the United States abroad.

The types and amounts of benefits and allowances any individual may receive under the State Department system depend on such factors as his marital status, number of dependents, position, grade, and salary and retirement system; legislation applying to different agencies; agency interpretation of legislation; agency fund limitations;

and discretion of Washington officials and field office officials.

2. DOD system

DOD prescribes benefits and allowances for its civilian and uniformed personnel and for uniformed personnel of the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

For DOD civilian employees, the State Department system of benefits and allowances has been adopted with certain limitations. For uniformed personnel, the system varies considerably because, for example, uniformed personnel either live in Government quarters or receive basic allowance for quarters whether they are stationed in the United States or in a foreign country and an additional housing allowance in foreign countries where housing costs exceed the basic allowance for quarters. Civilians receive only a housing allowance when they are assigned in foreign countries.

3. CSC system

CSC has a system of benefits and allowances for an employee stationed outside the continental United States but still under the jurisdiction of the U.S. Government. It involves basically a non-foreign-area allowance and a nonforeign differential, as discussed below, and benefits relating to a permanent change of station. These areas include Alaska, Hawaii, Puerto Rico and U.S. possessions, and other areas outside U.S. continental limits designated by the Secretary of State.

Nonforeign allowance

This is a cost-of-living allowance, payable at a post in a nonforeign area where living costs are substantially higher than in the District of Columbia. In establishing allowances, CSC considers (1) the relative consumer price levels in the area and in the District of Columbia, (2) differences in goods and services available, and (3) the manner of living of persons employed in the area in positions comparable to those of U.S. employees in the area. The allowance is authorized, for example, for Alaska, Puerto Rico, and Hawaii.

Nonforeign differential

This is additional pay at a post in a nonforeign area when conditions of environment differ substantially from those in the States and warrant additional pay as a recruitment incentive. CSC established differentials as recruiting incentives for nonforeign areas where it found them justified because of extraordinarily difficult living conditions, excessive physical hardship, or notably unhealthful conditions. The differential is authorized, for example, for American Samoa; Guam; and Canton, Christmas, Johnson, Saul, Midway, Swan, and Wake Islands.

4. The Federal system

Many Government civilian employees receive all or part of their overseas benefits and allowances under one or more of the above three systems. Employees not eligible under those systems may be eligible under the Federal Personnel Manual and the Federal Travel Regulations. The Federal system is generally available to employees whether they are assigned to domestic or overseas posts and, in some instances, results in different rates, amounts, and other different conditions than are available under the other three systems.

For example, home leave travel, storage and shipment of household goods, and shipment of privately owned vehicles are provided by State's system for Foreign Service employees, for DOD employees by the DOD system, and for other employees by the Federal system. The amount and differences are discussed on pages 20, 23, and 24.

CHAPTER 4

OVERSEAS PREMIUM FOR CIVILIAN EMPLOYEES

HIGHER THAN OTHER SYSTEMS AND

MAY NOT BE SERVING PURPOSE

FOR WHICH AUTHORIZED

Within the overseas allowance system, certain allowances serve as recruitment and retention incentives for civilian employees. The two major incentives¹ are the post (hardship) differential which cost the United States about \$36 million and the housing allowance which cost about \$40 million in fiscal year 1972. The post differential is authorized exclusively in countries having particularly adverse living conditions. Diverse reasons have been given as justification for the housing allowance during its 50 years of historical development. Our analysis leads us to believe that as of 1974 the primary remaining justification is for recruitment and retention, although in particular circumstances it also serves the purpose of representational housing and as reimbursement for the extra cost of housing in high-cost overseas locations.

Our review of the overseas premium showed that the Government may be incurring unnecessary costs because:

1. The allowances making up the premium, although authorized and justified as recruitment and retention incentives, are not now directly related to recruitment and retention needs. Premium payments are assumed to be appropriate, and agencies make no attempt to determine how much is needed for recruitment and retention. As presently managed, the system does not provide the flexibility needed to adjust the nature and level of incentives to changing employment markets, recruiting methods, or resignations and vacancies.

¹ Other incentives are (1) home leave--extra vacation of 5 to 15 days a year for service outside the United States, (2) rest and recuperation--payment of travel cost for vacation outside the United States from difficult posts, and (3) special retirement system for Foreign Service employees.

2. In relation to other systems--Canada, the United Nations, and other U.S. Government systems--the U.S. premium for civilian employees in foreign areas is high.

OVERSEAS PREMIUM AS A
RECRUITMENT AND RETENTION INCENTIVE

Post differential

This allowance is authorized exclusively as a recruitment and retention incentive. The authorizing legislation (5 U.S.C. 5925) provides that:

"A post differential may be granted on the basis of conditions of environment which differ substantially from conditions of environment in the Continental United States and warrant additional pay as a recruitment and retention incentive."

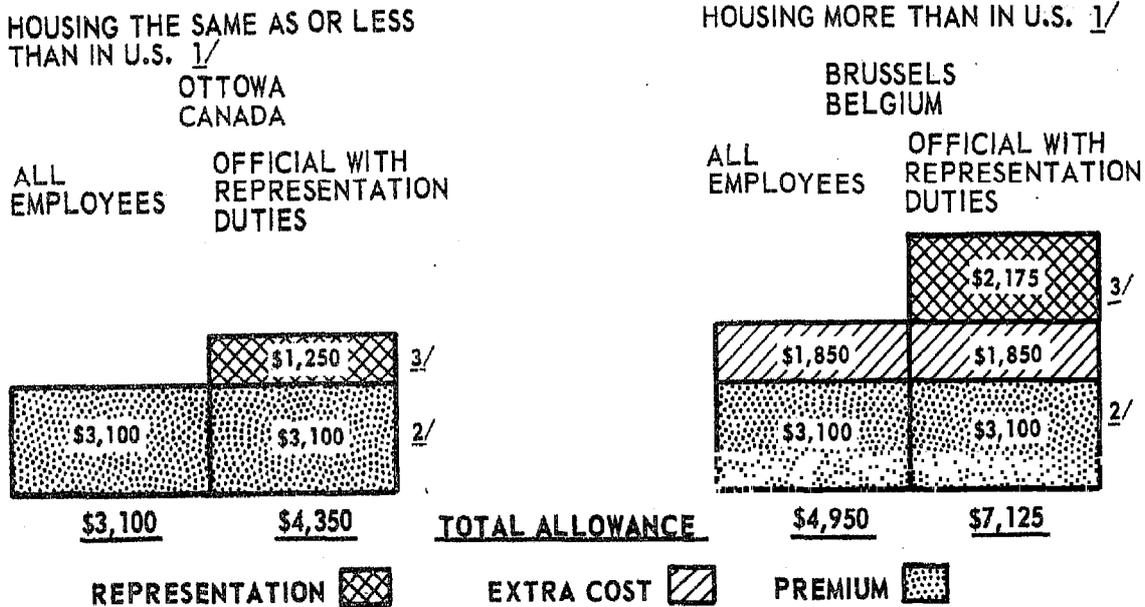
Housing allowance

A number of purposes to be served by the housing allowance have been identified since its initial authorization in 1926. Our examination of the legislative history of the acts authorizing and expanding the housing allowance¹ and the various other overseas allowances serving many of the purposes originally served by the housing allowance leads us to believe that the housing allowance for (1) all employees overseas serves as a recruitment and retention premium and (2) a few designated officials with official representational responsibilities is increased by almost 50 percent to permit the acquisition of housing that will accommodate representational functions.

GAO estimates that at 57 percent of all posts overseas where housing costs exceed U.S. housing costs, the housing allowance is set at a level to accommodate the higher housing

¹
1926 - Foreign Service Buildings Act, 1926 (44 Stat. 403)
1930 - Public Law 445 (Act of June 26, 1930) (46 Stat. 818)
1946 - Foreign Service Act, 60 Stat. 999 (now 22 U.S.C. 801 et seq.)
1960 - Overseas Differentials and Allowances Act, 74 Stat. 792 (now 5 U.S.C. 5921 et seq.)

costs and serves as reimbursement for extra cost of such housing. The following illustrates how the housing allowance is increased where it is to serve purposes other than recruitment and retention incentive.



1/ Allowance for married employee with 2 children in \$20,000 salary class (salary of a typical U.S. civilian employee is \$19,700).

2/ Officers with representation duties are authorized additional allowance. (See app. IV.)

3/ Premium estimated on the basis of Labor Department determination that a 4-member, high-budget family in the United States (applicable to a salary of \$20,000) spends \$3,100 on housing costs. The total housing allowance for an official with \$20,000 salary and a family of four in Brussels is \$4,950. Thus, the extra cost of housing in Brussels is \$1,850.

The reasons cited as justifications for the housing allowance during its historical development fall into four basic categories.

- To compensate for low Government salaries.
- To permit adequate U.S. representation.
- To compensate for increased cost of housing in certain areas.
- As recruitment and retention premiums.

Within the perspective of its long evolution, the extent to which the housing allowance is designed to serve purposes other than recruitment and retention is discussed below.

1. Compensation for low Government salaries

One reason housing was originally authorized was because Federal salaries were considered low. However, significant improvements have been made in employer-employee relationships, particularly in Federal compensation. The Federal Salary Reform Act of 1962, for instance, established the policy that Federal salary rates shall be comparable with private enterprise. As of July 1, 1969, eight annual adjustments had been made, including two special catchup increases, which applied to all Government employees including Foreign Service employees. In terms of the 1973 consumer price index, the average Foreign Service officer's salary was about \$11,700 in 1930, \$13,000 in 1953, and \$23,500 in 1974. Evidence suggests that allowance managers do not consider the housing allowance as compensation for low salaries. Thus we believe that housing no longer serves this purpose.

2. U.S. representation

In 1926 the Government obtained authority to provide housing to officers on the basis of need for better representation of the United States. Since initiation of the housing allowance, a special allowance for housing has been authorized for certain designated officials who have specific representational duties. These officials receive an additional allowance of 50 percent of their living quarters allowance. Also, for principal officers living in specifically obtained official residences and for other selected officers, the Government usually purchases or leases a

residence. In 1946 an additional allowance, which was not available in 1926, was authorized to pay the expenses of operating residences for designated officials.

3. Increased cost of housing

Housing costs at many overseas posts are significantly higher than U.S. housing costs. The housing allowance serves to reimburse employees for any extra cost of housing above the average cost of U.S. housing. No reports or data are readily available to U.S. allowance program managers to show what portion of housing costs apply to this extra cost above the premium portion. Managers do not currently manage or evaluate the allowances for overseas premiums in terms of posts and purposes. To ascertain the overseas posts where housing costs are more expensive than in the United States, we compared the Department of Labor estimates of U.S. housing cost for a high-budget family with the basic housing allowance for 135 U.S. posts overseas for which accurate data was published comparable to the time of Labor's study. We found that at about 43 percent of U.S. posts overseas housing costs were the same as or lower than in the United States.

OVERSEAS PREMIUMS NOT RELATED TO RECRUITMENT AND RETENTION

The overseas premiums for most of this century have essentially consisted of a fixed amount. For the most part they have remained static with no built-in flexibility to reflect changes in vacancies, in the employment market, in resignations, and in recruitment programs. Even though many positive changes have occurred in these factors, the premiums are continued on assumption that they are still needed as a recruitment and retention incentive.

Premium system lacks flexibility to respond to changing recruiting conditions

Our review showed that the U.S. Government is having no difficulty in recruiting and retaining employees in overseas positions. CSC and other agency officials comment that there is virtually no problem in filling any overseas vacancy. The supply far exceeds the demands. For example, in 1972 the State Department had 11,000 applicants for 70 vacant

positions. State Department officials also have a number of requests for assignment to hardship posts. Resignations from Foreign Service have declined.

The rate of resignation for new employees was only 2.2 percent in 1972 and 2.5 percent in 1973. State Department officials also said the only place they have trouble recruiting clerical staff is for positions in Washington, D.C.

By authority of the Federal Salary Reform Act of 1962 (Public Law 87-793, Oct. 11, 1962, 76 Stat. 841-868), CSC has adopted a flexible system for paying recruitment and retention premiums to domestic employees. The system considers whether vacancies exist, why vacancies exist, the sufficiency of recruitment programs, how long vacancies are expected to last, the nature of labor shortage, and how much premium pay is necessary. In addition, an annual review is made to determine if the premium is still necessary. We believe the same type of data should be gathered and analyzed by the State Department and other agencies with employees overseas to determine appropriate premium payments and to annually evaluate the continuing need.

The system followed by the various agencies for overseas employees, on the other hand, assumes that the premiums are necessary. Evaluations consider only whether certain negative factors exist for purposes of setting hardship differential rates rather than whether any premium incentive is necessary for recruitment and retention purposes.

AGENCY COMMENTS AND GAO EVALUATION

The Department of State took the position that, for its Foreign Service personnel,¹ it does not need and could not use a premium system with flexibility to accommodate changing circumstances and recruiting condition because:

¹ Foreign Service personnel represent about 20 percent of all U.S. civilian personnel in foreign areas.

- In its small posts, positions cannot remain vacant waiting for applicants.
- Foreign Service personnel are required to serve where ordered.
- Such personnel must be dealt with fairly when required to serve at posts the Department determines to be hardship posts.
- The present premium does this effectively.

The overseas premium is both justified and authorized as a recruitment and retention incentive. The premium has remained static with no built-in flexibility to reflect changes in vacancies, the employment market, resignations, and recruitment programs; and evidence exists that there is virtually no problem in filling any overseas vacancy.

State's contention that the premium is necessary to compensate for the discipline requiring service where ordered overlooks the purpose for which the overseas premium is justified and authorized; that is, as a recruitment and retention incentive. Thus, if the premium is to serve the purpose for which it is authorized, flexibility must be established to recognize these changing circumstances.

We do not agree that State's requirements that Foreign Service personnel serve where ordered prohibits use of a flexible premium system. The present practice is to give its employees a choice, if possible, in their rotations to new assignments. By systematically determining from such choices the posts where applicants exceed demand, data would be available for adjusting or eliminating the premium where recruitment and retention circumstances do not warrant it.

Post differential rates are artificial

The post differential is designed as a recruitment and retention incentive to provide additional compensation to employees for service at posts where conditions of environment differ substantially from conditions of environment in the continental United States. This allowance cost the Government about \$103 million in fiscal year 1972, including foreign duty pay for uniformed enlisted personnel. About

\$36 million is paid as a hardship differential for U.S. Government civilian employees assigned to foreign countries. The amount of post differential authorized for a post varies according to the level of hardship as computed by the Department of State but is limited by law to a maximum of 25 percent of salary.

The Secretary of State has authority and responsibility for prescribing regulations and establishing the salary differentials for civilian employees by Executive Order 10903 dated January 9, 1961. He has established differentials of 0, 10, 15, 20, or 25 percent of the salary to be paid, depending upon the degree of hardship found at a post.

Measuring the degree of hardship at any post is subjective. Nevertheless, a point system was established by the State Department to interject some objectivity into the determination.

A questionnaire is prepared by the posts which are authorized, or hope to be authorized, a differential. Employees at the posts answer a number of questions, including where the nearest cities are located, what sports and spectator activities are available, whether isolation is a hardship, what food is available, and what is the local climate and topography. The major factors considered on the questionnaire are:

PHYSICAL ENVIRONMENT:

- Isolation
- Climate and altitude
- Natural hazards

LIVING CONDITIONS:

- Sanitation and disease
- Medical and hospital facilities
- Housing
- Food
- Education
- Importation
- Recreation
- Community facilities

PERSONAL SECURITY AND RELATED FACTORS:

- Political violence
- Crime
- Harassment

The post questionnaire is reviewed and analyzed by the State Department allowance staff, who assign points for each hardship factor. The sum of the points determines whether the post is authorized a differential and how much.

Post differential was first authorized by Section 443 of the Foreign Service Act of 1946 for the Foreign Service staff because the State Department had experienced considerable difficulty in recruiting and retaining subordinate personnel for some of the more difficult posts. Morale was reported to be low and the rate of resignation high. Amendment to the Independent Offices Appropriation Act of 1949 extended the differential to overseas employees of other departments and agencies.

Post differential was not authorized for Foreign Service officers because the delegation of service at any post in the world without special inducement or compensation is implicit in their commissions.

In 1955 Foreign Service officers received the post differential on the basis that simple equity justified removing a disparity in the treatment accorded them.

Although authorized on the basis of recruitment and retention needs, no attempt is made by any agency to directly relate the payments authorized to solving specific recruitment and retention problems or to reduce the payments where recruitment and retention is no longer a problem.

Conditions which make posts attractive are not considered

The system that establishes the differentials provides for consideration to be given only to the adverse conditions and not the attractive conditions. In our opinion, the rates are artificial and may result in excess cost to the Government. Posts which have the greatest recruitment and retention problems may be underrated.

The State Department assumes that there is some degree of hardship and adverse living conditions at all posts, including many desirable ones. The mere fact that adverse conditions exist does not necessarily qualify posts for a differential. For purposes of hardship differential, payments are made at posts where the adverse conditions are considered extremely difficult.

Adverse living conditions, however, may be offset by a number of attractive conditions which may eliminate any recruitment and retention problem. For instance, a State Department official said that many of the younger officers request these posts because there is an opportunity for greater responsibility and more rapid promotion. Other employees might be attracted to hardship posts because they like being closer to nature or prefer wilderness areas for hunting and exploring. The lure to travel and live in foreign countries entices many employees to the far reaches of the world. There may, in fact, be many more attractive features which are not taken into consideration in the point system for establishing post differential rates.

In January 1972, an interagency task force was formed to study the current system for determining hardship differential payments to U.S. Government civilians serving overseas. The current system has remained unchanged since its inception in 1951. The need for the study was underscored by the 1971 GAO report on allowances. Members of the task force were appointed from State, AID, USIA, DOD and the Central Intelligence Agency.

On June 8, 1973, the task force issued its report. The report recommended changes in negative factors. For instance, in 1951 heavy consideration was given to climate and housing. These two factors are no longer considered the hardship they once were because of general improvements in housing and widespread use of air conditioners. Threats to security have increased though and are being given more consideration in the proposed new weighting system.

Once again specific recruitment and retention problems, attractive post factors, and unneeded differential have not been evaluated.

OVERSEAS PREMIUM HIGH COMPARED WITH OTHER SYSTEMS

The housing allowance and the post differential allowance can amount to as much as \$15,700 per year for an employee or as much as 45 percent of an employee's salary.

Although it is unlikely that any two compensation and benefit systems can be accurately compared, for purposes of perspective we have compared the relative levels and rates of premiums allowed under several systems. Because of the potential for inaccuracies these can only serve as general indications.

When compared to the overseas premium provided by Canada, the United Nations, and other U.S. Government systems, the U.S. premium for U.S. civilian employees overseas appears high.

<u>System</u> (note a)	<u>Total premiums</u>	
	<u>Lowest</u>	<u>Highest</u>
United Nations (note b)	\$ -	\$ -
Canada (note c)	1,260	^d 8,325
U.S. civilian employees	1,200	15,700

^a Comparable data is not readily available for U.S. private industry. Generally, private industry limits premiums to 25 percent of salary but practices vary too much to rely on this as an average.

^b The United Nations salary scale is based on the U.S. Government salary scale.

^c The range of Canadian and U.S. Foreign Service salaries is comparable.

^d Excludes extra cost of housing at high-cost posts and representational housing increments.

The premiums are not absolutely comparable because of certain other variables and differences between total pay and allowances. We believe, however, they indicate the relative level of recruitment and retention incentive.

1. Comparison with Canada

A comparison of the U.S. premium to the Canadian premium shows that the U.S. system allows much higher payments. The Canadian premium does not allow housing but provides post differential rates, as follows.

<u>Level of hardship</u>	<u>Single</u>	<u>Married</u>	<u>Married with dependents</u>
I	\$ 450	\$ 575	\$ 700
II	650	800	950
III	950	1,150	1,400
IV	1,200	1,500	1,800

The U.S. system pays 10, 15, 20, or 25 percent of salary, or as much as \$8,500, with an average payment of \$2,450 in fiscal year 1972, which is substantially higher than the Canadian maximum.

A comparison of certain overseas posts rated under the Canadian system and under the U.S. system shows that the factors can result in wide differences. Canadian posts in only 37 countries were classified as needing a hardship differential, whereas the U.S. system had hardship posts in about 120 countries and foreign areas.

Thirty-five Canadian hardship posts were rated under the U.S. system in a July 1973 comparison. Wide differences were present.

<u>Post</u>	Canadian rating (<u>note a</u>)	U.S. rating (<u>note b</u>)
<u>Level I</u>		
Abidjan, Ivory Coast		15
Ankara, Turkey		0
Beirut, Lebanon		0
Brasilia, Brazil		0
Dar es Salaam, Tanzania		10
Kingston, Jamaica		0
<u>Level II</u>		
Accra, Ghana		15
Addis Ababa, Ethiopia		10
Algiers, Algeria		15
Bangkok, Thailand		10
Belgrade, Yugoslavia		0
Bogota, Colombia		0
Budapest, Hungary		10
Colombo, Sri Lanka		20
Daka, Senegal		0
Guatemala City, Guatemala		15
Kinshasa, Zaire		20
Lagos, Nigeria		15
Lusaka, Zambia		0
Manila, Philippines		10
New Delhi, India		10
Niamey, Niger		25
Port-au-Prince, Haiti		15
Prague, Czechoslovakia		10
Theran, Iran		0
Tel Aviv, Israel		0
<u>Level III</u>		
Belfast, Northern Ireland		10
Djakarta, Indonesia		25
Georgetown, Guyana		15
Moscow, U.S.S.R.		15
Warsaw, Poland		10
Yaounde, Cameroun		15
<u>Level IV</u>		
Dacca, Bangladesh		25
Islamabad, Pakistan		15

^a Posts eligible for differential are rated at four levels. Level I authorized the lowest payment.

^b Posts eligible for differential are rated by the percent of salary authorized for payment.

Canada also provides a cash overseas premium ranging from \$1,260 to \$4,350. In total the maximum overseas premium can be as high as \$8,325 for some Canadian employees. The United States maximum can be as high as \$15,700.

2. Comparison with United Nations

The United Nations does not pay an overseas premium or hardship differential and does not provide housing. The United Nations does, however, pay several allowances which may serve as an incentive.

3. Comparison with U.S. private industry

A recent Conference Board study shows a trend among private firms to reduce overseas premiums. The Conference Board is a New York-based fact-finding institution which conducts research and publishes studies on business economics and management experience. It has 4,000 members made up of business organizations, trade associations, Government bureaus, libraries, labor unions, colleges and universities, and individuals.

Appendix V compares premiums and other benefits and allowances for the United States, the United Nations, Canada, and U.S. private industry.

4. Comparison with U.S. military personnel

Military officers receive no additional payment as a recruitment and retention incentive for overseas service. Enlisted personnel receive foreign duty pay ranging from \$8 to \$22.50 a month. Military personnel either live in Government quarters or receive a basic allowance for quarters whether they are assigned domestically or overseas. Additional housing allowance is paid to them only in foreign countries where housing costs exceed the basic allowance for quarters.

5. Comparison to employees in nonforeign areas

U.S. civilians assigned to nonforeign areas outside the continental United States do not receive housing. (See page 28.) The hardship differential authorized is limited to 25 percent of the salary or a maximum of \$9,000 per year.

CHAPTER 5

NONPREMIUM ALLOWANCES AND BENEFITS MORE THAN REIMBURSE

EMPLOYEES FOR EXTRA COST OF LIVING IN FOREIGN AREAS

Except for the overseas premium, the aim underlying all overseas reimbursement benefits and allowances is that they should result in neither financial gain nor loss for an employee but should permit a standard of life equivalent to that in the United States. The system of nonpremium allowances permits civilian employees in foreign areas to realize financial gains.

--Some employees are compensated for costs they do not incur. In Rome; Italy, for example, in the middle of fiscal year 1973 civilian employees were receiving about a 5-percent cost-of-living allowance, because the cost of living was about 5 percent more in Rome than in Washington, D.C. In computing the Rome cost-of-living index, we attributed the costs to the fact that servants made up about 15 points of the total index of 106. Our test check of 30 employees--about 12 percent of the U.S. civilian employees in Rome--showed that 21, or 70 percent, did not employ servants. Employing additional servants apparently is a matter of personal choice, rather than a factor necessary to equalize the purchasing power of an employee in an overseas area with that of a Federal employee in Washington, D.C. Worldwide, in 1972, about \$7 million of the estimated \$10 million paid in cost-of-living allowances to civilian employees in foreign areas was based on the cost of servants. No negative adjustment to allowances is made at posts where the cost of living is lower than in Washington, D.C.

--Many overseas employees do not pay State income taxes and receive either free schooling or allowances to cover education expenses for their children. Stateside employees, on the other hand, pay State and local taxes which are used in part to support public schools.

EMPLOYEES REIMBURSED FOR
COSTS NOT INCURRED

Often employees are reimbursed for costs they do not incur. In addition, some allowances apparently include factors of extra cost which are primarily a matter of personal choice.

The post allowance is a cost-of-living allowance authorized for employees assigned to posts where the cost of living is higher than in Washington, D.C. In fiscal year 1972 about \$10 million was paid to U.S. Government civilian employees in foreign areas. We believe the post allowance is overstated because of two factors.

1. Housing factor should not be included

The post allowance payment is based on a comparison of the cost of living in foreign areas with that in Washington, D.C. Washington is rated as 100 and employees assigned to foreign areas having an index of 103 or more receive a cost-of-living allowance. The allowance is paid in 5 percent increments; thus, if the index is between 103 and 107, the payment is rounded to 5 percent. The amount of payment is based on spendable income, which is base salary less income taxes, retirement deductions, life insurance payments, gifts and contributions, and savings. In theory then, employees' incomes are increased when they are assigned to high-cost posts by the percentage that the cost of living at that post is higher than in Washington. We believe the post allowance is higher than justified because U.S. housing expenditures are included in spendable income while housing or an allowance is provided to employees in foreign areas.

For example, an employee with a family living in Oslo, Norway, receives a 5-percent post allowance because the index is 105. For purposes of illustration, the difference between using spendable income including and excluding shelter as computed by the State Department for a \$20,000 salary is shown as follows.

	<u>Spendable income</u>		<u>Cost-of- living rate</u>		<u>Allow- ance</u>
Including shelter	\$13,700	x	5%	=	\$685
Excluding shelter	11,400	x	5	=	<u>570</u>
Difference					<u>\$115</u>

The allowance staff stated that the amount of income which would normally be spent on housing in the United States is intended to be available for other purposes overseas (that is, as an overseas premium) and that the employee's buying power at a high-cost post would be reduced if the housing factor were excluded from spendable income.

The cost-of-living allowance was authorized to insure that employees at overseas posts retain the same buying power they would have in Washington. In our opinion, the cost-of-living allowance should not be used to adjust the overseas premium upward because the premium is available for savings, investment, home leave, or other purpose the employee chooses.

State Department auditors, a management consultant to private industry, and OMB have stated that including the housing factor in spendable income overstates the cost-of-living allowance. In July 1973 the State Department auditors estimated that including shelter in spendable income resulted in excess costs of \$280,000 in fiscal year 1972 for State Department employees alone. State Department officials said that the housing factor will be eliminated. First, however, they plan to update the spendable income estimates which they believe are low because the highest spendable income estimate now used is \$13,700 based on a \$20,000 salary. Higher salaries are limited to the \$13,700 ceiling. Recent salary increases lead them to believe the maximum spendable income should now be higher.

2. High domestic servant factor

For cost-of-living indexes, the servant cost factor usually is weighted quite high. State Department officials said that servants overseas are necessary because of language barriers; for more frequent shopping; for preparing food, which is often raw; for home security; and for home laundry.

At most posts the need for servants is given a much higher weight than in the United States. In Washington the need for servants is given a weight of 2.7 and in Bangkok, Thailand, 136.2; and 45.5 is a quite common weight for other posts.

The Congress has been informed that the Government pays only the cost of servants for official residences. Any other servants employees hire are paid for out of their own pockets.

Where a high factor for servants is included in the cost-of-living payments, however, the U.S. Government actually pays at least part of the cost. We estimate that about \$7 million of the estimated \$10 million paid for cost-of-living allowances in fiscal year 1972 was based on the cost of domestic servants.

For instance, on February 14, 1973, Tokyo, Japan, was authorized a 5-percent cost-of-living allowance based on a cost-of-living index of 103. Annual payments range from \$185 for a single employee with a salary under \$5,000 to \$685 for a married employee with a salary of \$20,000 and over with \$60 additional for each child. We estimate that on an annual basis \$163,000 is paid to civilian employees in Tokyo. Without the high domestic servant weight factor of 20, the Tokyo index would have been about 95 and no payments would have been authorized. DOD recently refused to authorize a cost-of-living allowance for uniformed personnel in the Tokyo area. Subsequently, on November 9, 1973, uniformed personnel were authorized an allowance in the Tokyo area. The civilian allowance in Tokyo was discontinued on December 23, 1973.

Also in Rome, Italy, in the middle of fiscal year 1973 civilian employees were receiving a cost-of-living allowance of about 5 percent, based on the finding that it costs about 5 percent more to live in Rome than in Washington. In computing the cost-of-living index in Rome, the costs attributed to servants made up about 15 points of the total index of 106. Our test check of 30 employees--about 12 percent of the U.S. civilian employees in Rome--showed that 21, or 70 percent, did not employ servants.

We were informed by State Department officials that the cost-of-living index methodology was revised in July 1972. The new methodology requires posts to substantiate the need for each type of servant hired. Under the new criteria almost

all new surveys have required some downward revisions of servant-use weights. For instance, new surveys for Belgium, France, Germany, Italy, the Netherlands, and the United Kingdom indicate that high weights for domestic servants are no longer justified. As a result of the new methodology, the living cost index for Brussels, Belgium, went from 125 in July 1972 to 109 in July 1973. The average U.S. Government family in Brussels does not use domestic help because of the high cost. In other surveys, particularly for Western Europe, the introduction of new items and sampling methods have actually caused substantial increases which largely offset any drop in the overall index caused by a reduction of servant use.

High servant weight factors still prevail in a number of countries. Low cost and actual use seem to be important factors for including the high servant weights.

Other factors are also given higher weight overseas than in Washington. Food is given a higher weight because servants waste food and spoilage is high in a hot climate. We believe that employing servants for food preparation is a matter of personal choice as opposed to a necessity that the Government should pay for. Also spoilage is not a determining factor since refrigerators are available to nearly all families overseas.

We previously reported on removing domestic servant factors from the cost-of-living allowance for employees in Puerto Rico and the Virgin Islands in a report to the Congress in April 1965.

"The Civil Service Commission decided that the employment of additional servants in nonforeign overseas posts was a matter of personal choice and that the adjustment of the cost-of-living index by the use factor for the cost of additional servants, rather than tending to equalize the purchasing power of an employee in an overseas area with that of a Federal employee in Washington, D.C., tended to give the overseas employee an advantage. With respect to the use factor for clothing, the Commission found that many steps have been taken in the last decade to provide clothing suitable for hot-weather use and that generally in tropical areas only one wardrobe would be required, compared with two seasonal wardrobes needed in the

Washington, D.C., areas where many items of expensive winter clothing are needed by all members of the family. The food use factor was also found to be inappropriate since Federal employees in overseas areas can be expected to have refrigerators similar to those of Federal employees in Washington, D.C., and with proper care little food spoilage should occur. The Commission concluded that, with the use factors excluded, living costs in those areas where cost-of-living allowances were paid could not be compared with the cost of living in Washington, D.C., on the basis of actual prices and expenditures."

The elimination of the use factor reduced the cost-of-living indexes for Puerto Rico and the Virgin Islands.

In view of the significant improvements in world conditions, we believe there are persuasive arguments for eliminating the Government's support of the cost of additional servants for civilian employees overseas.

NO NEGATIVE COST-OF-LIVING ADJUSTMENT

The Department of State publication of indexes of living costs abroad issued April 1973 showed that, although 72 of 135 posts had a cost-of-living index lower than that of Washington, D.C., no negative adjustment was made. But the United Nations and the Canadian Government make negative adjustment for their employees. A management consultant recommends a negative adjustment to private U.S. industry with employees abroad as follows:

" * * * it is inconsistent to pay positive cost-of-living differentials where indicated but to make no deduction for negative cost-of-living differentials. If less spendable income is required in a certain location to maintain an American pattern of living, then an employee in that location has a saving advantage which employees in positive locations do not enjoy. Further, if no negative offset is made, it will be difficult to transfer an employee to a higher cost-of-living area where he must forego his previous savings. Moreover, if a local negative situation becomes less negative, employees tend to expect an increase in their compensation to offset rising costs. But no additional compensation (or

decreased offset) would be allowable unless the index exceeded 100. On the other hand, where negative offsets are made, a decrease in the offsets (resulting in an increase of at-post spendable income) would indicate to the employee that cognizance had been taken of locally rising costs vis-a-vis Washington, D.C."

REIMBURSEMENTS NOT INVOLVING
EXTRA COSTS OF LIVING

Reimbursement is made for factors which do not involve extra costs. Employees are sometimes reimbursed for costs normally incurred by employees residing in the United States. Two examples are discussed below.

1. Many employees overseas do not pay
State income taxes

Although similar inequities may exist for employees living in different parts of the United States, this report deals only with U.S. employees assigned overseas.

In addition, the U.S. Government incurs costs by providing overseas employees some of the services usually provided U.S. citizens by State and local governments which results in gains for those overseas employees not paying State and local taxes.

State and local taxes help support institutions of higher learning; correctional, mental, and rehabilitation institutions; and health and welfare institutions. All citizens share in these expenses, regardless of whether they ever directly use the services or not.

In addition, State and local taxes are used for such services as education and police protection, some of which are provided by the U.S. Government to employees overseas through the benefits and allowances system.

For employees to be relieved of the costs of these services and also be reimbursed for direct services in foreign areas is to add a personal allowance, rather than merely compensate for extra costs of living in foreign areas. For instance, each employee with children of school age receives from the Government an education allowance averaging \$1,600.

The State Department's position is that employees are required to pay State taxes, and officials believe that most employees do. Therefore, no consideration is given in the benefit and allowances system to relief from State income tax incident to overseas assignment. Officials believe, however, that paying State and local taxes is a personal matter.

In a test check of 236 employees in 9 separate locations overseas, 174, or 74 percent, said they were not paying State income taxes. We estimated that about 25 percent did not pay because they had elected to claim residence in States which do not have State income taxes. Other States may have provisions relieving persons overseas from State taxes and still others may not enforce the payment even though required.

In this connection, we noted that the United Nations adjusts the salaries of its employees and that some private U.S. companies adjust the salaries of their overseas employees for U.S. taxes when the tax laws relieve them. (See app. V.)

2. Special services

We previously discussed the various ways in which agencies assist their employees with housing and other services. Some agencies provide more services than others. We were informed that AID at some posts even changed light bulbs in employees' residences. Such support services require additional employees overseas and result in additional costs to the Government.

In 1970 the State Department assessed diplomatic missions' roles and functions in a report entitled "Diplomacy for the 70's," which discussed logistic support for the staff, as follows.

"Throughout the world, but particularly in our largest missions and in the less developed areas, we have employed sizable staffs whose functions are geared to maintaining residences and office buildings. Often these particular specialties, plumbing, carpentry, electrical repair, are services which are badly overused because they are readily available to the employees without 'visible' costs to the government. More significantly, these repairmen are

no longer such a rare commodity within the community, and their services could, we believe, be obtained on a contract basis with consequent savings. The result of using this type of contract service would also enable us to free, and in some instances reduce, the now necessary American and local supervisory personnel."

Recently AID took a more practical and still more economical approach; it announced a new support policy under which employees will assume more responsibility for leasing and maintaining their own living quarters and for using local resources for a variety of support services previously furnished by the mission, including packing of effects and arranging travel and local transportation. According to AID officials, local living standards have improved in many developing countries. This policy was announced in the AID newspaper "Front Lines," which quoted the AID Administrator: "The objective to reduce direct support and manpower costs are in consonance with our commitments to Congress, and the President's concern for a low profile."

The provision of support services by some agencies and not others results not only in some of the inequities cited in chapter 3 but also in additional costs to the Government. Inequities could be eliminated and costs could be reduced if the Government established a single body of rules for all benefits, allowances, and privileges and reduced the assistance to employees in foreign areas. AID has taken steps in this matter.

CHAPTER 6

HOUSING OVERSEAS MORE EXPENSIVE THAN

NECESSARY DUE TO NEED FOR IMPROVED MANAGEMENT CONTROLS

U.S. civilian employees assigned to foreign countries are authorized to occupy Government owned and leased quarters free of charge or to receive a living quarters allowance. Housing is provided as a recruitment and retention incentive. Adequate quarters are to be provided to employees at the lowest possible cost to the Government. But the overuse of Government-leased housing results in inequities among employees and in higher costs to the Government. Although some management controls have been designed into the system, they have not been used.

A quarters allowance is paid to overseas employees for the cost of adequate housing for the employee and his family. The rates are designed to cover rent, electricity, water, and certain other items; they are computed from the charges employees report they are actually paying. The rates vary according to post, grade, and family size.

In some overseas locations the Government owns living quarters and when it is considered in the best interest of the Government, quarters are leased.

OVERUSE OF GOVERNMENT-LEASED HOUSING

Government-leased housing results in higher costs to the Government than does the quarters allowance system and also in inequities among employees. In practice, there is an overuse of leased housing.

It was recently reported that in 126 of 132 countries there is a Government leasing program and only in 65 of the 132 is the quarters allowance system used. A rough, but conservative, estimate of the total cost of housing in foreign countries, excluding DOD military and civilian employees, was about \$40 million. Of this amount, about \$23 million was for Government owned and leased housing and \$17 million was for quarters allowances.

The average cost of Government owned and leased housing exceeded \$5,000 a unit, compared with the average living quarters allowance in 1972 of about \$2,900 a unit. More than

\$7 million was also paid for maintaining; supplying, and servicing Government owned and leased housing.

It is the stated policy of the Department of State, AID, and USIA to provide housing for their employees overseas through the quarters allowance system, except that, under certain circumstances, posts may approve leasing of residential quarters only as a last resort. In view of the generally higher cost of Government leases and the additional costs for maintenance, supplies, and extra employees needed to administer a leasing program, this policy is appropriate for all Government agencies. In practice, however, Government leasing seems to be more routine. In some cases, more expensive Government leases are provided instead of the allowance, to increase the incentive for certain employees to serve overseas, but we believe this is unjustified.

Although the housing is used as a recruitment and retention incentive, the intent of the housing program is only to provide adequate housing. The more expensive Government leases, with Government repair service, caused inequities because they are not available to all employees. Sometimes Government leases are justified on the basis that quarters allowance rates are too low, even though employees of the same grade are finding adequate quarters in the same area within the quarters allowance.

We reviewed Government-leased housing at 14 of the some 600 posts in foreign countries. Examples are shown below.

Japan

Our review of living quarters for U.S. Government employees in Tokyo administered by the Embassy for its employees and employees of other agencies showed that 86 were Government leased, 133 were Government owned, and that others were privately leased by employees receiving living quarters allowances. The Embassy considered quarters allowance rates totally inadequate for downtown Tokyo and therefore was leasing quarters for 86 employees. These leases, including utilities, were averaging \$9,787 a year--in total more than \$527,000 higher than the quarters allowances that would be paid if employees received the maximum available amount. We did not perform a detailed review of the cost of leases in Tokyo. In view of the high cost of housing and the shortage

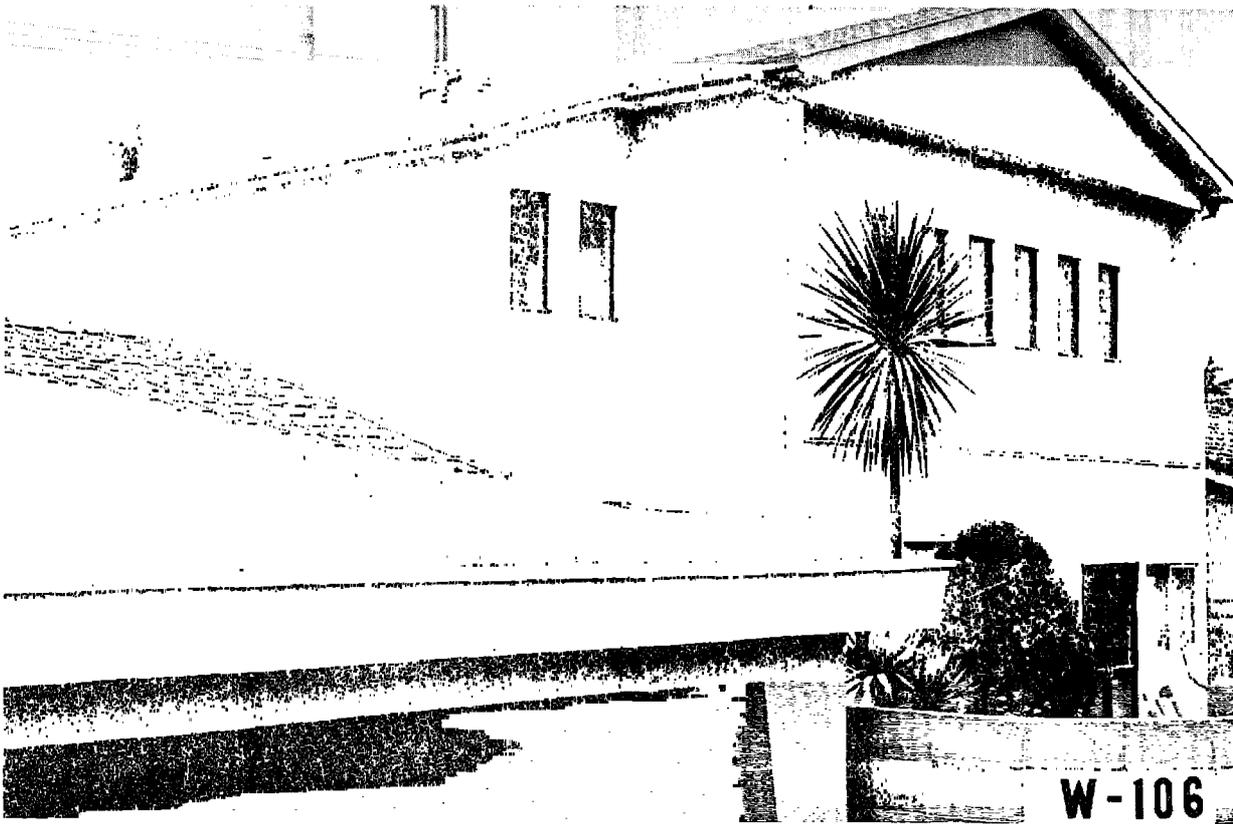
of American-type housing in Tokyo, the extra costs are probably justified in most cases.

We also reviewed the housing program administered by DOD for its civilian and uniformed employees.

A significant inequity existed in housing administered by DOD for its civilian and military employees and housing administered by the Embassy for other agencies' employees. Even though both DOD- and Embassy-attached employees lived in the same area, the quality and cost of their housing differed greatly. DOD required its employees living off base to find quarters within their housing allowance or pay the difference themselves, but Embassy-attached employees were granted leased quarters and paid no out-of-pocket costs.

Because 19 Federal Aviation Administration employees working at Yokota and Tachikawa Air Bases were officially attached to the Tokyo Embassy, they were provided with Government-leased quarters, which cost \$60,873 more a year than the maximum quarters allowance. DOD employees living in the same housing areas received only quarters allowances. For the extra money Federal Aviation employees occupied the larger and newer quarters which usually had non-Japanese amenities, such as central heating, air-conditioning, and wall-to-wall carpeting. The chief of the Pacific Region Flight Standards Division said the leases were a recruitment and retention incentive initiated several years ago to alleviate a serious morale problem with highly trained flight inspectors. Inasmuch as Federal Aviation employees could not live on military bases because of the Status of Forces Agreement, they were thought to be at a disadvantage because DOD employees had the chance to move into Government quarters. State Department leases the quarters for Federal Aviation Administration employees and the Administration reimburses the State Department.

The following photographs, taken in a housing area near Tachikawa Air Base, show houses occupied by Federal Aviation and DOD employees of comparable rank.

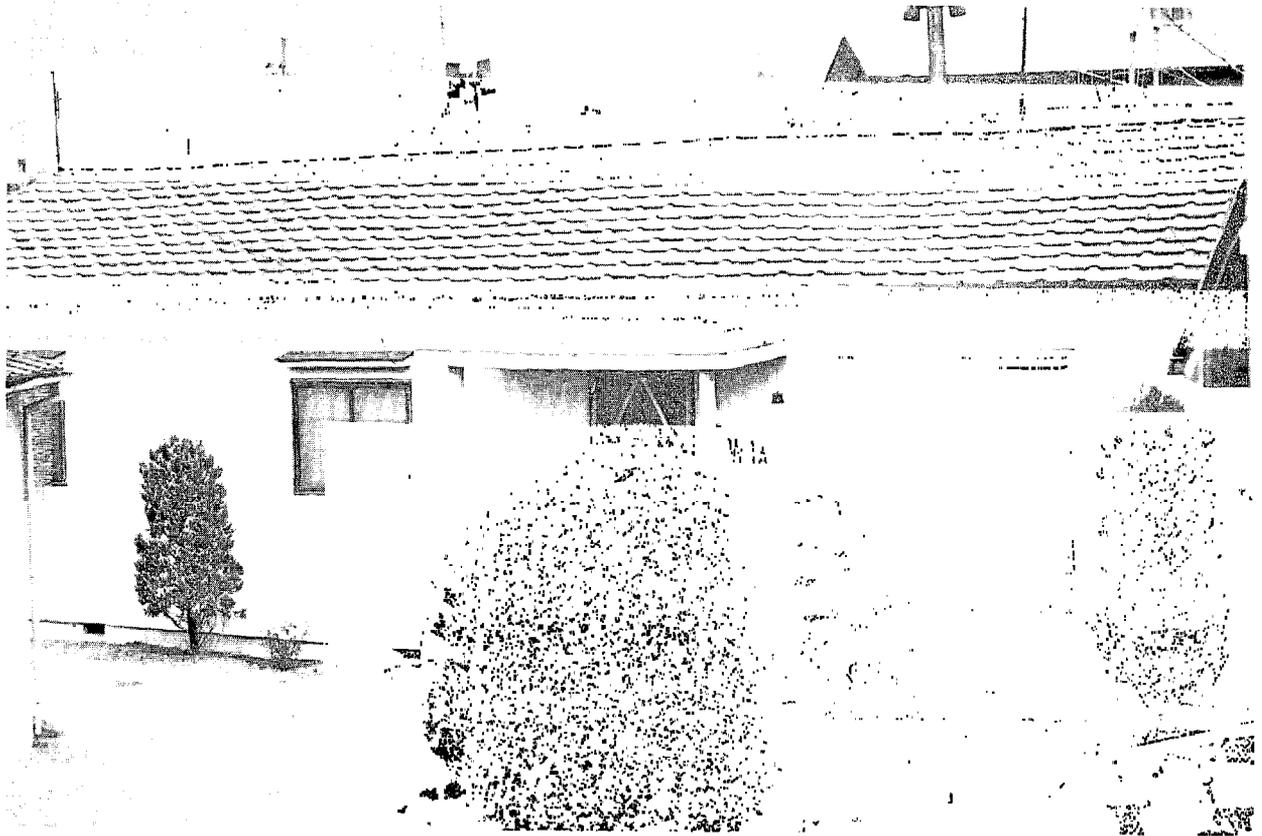


(Costs converted at 301 yen = 1 U.S. dollar.)

Federal Aviation Administration
General Schedule 12
Two dependents

Cost to the Government	\$7,625 a year
Additional cost to the employee	<u>-</u>
Total	<u>\$7,625</u>

Three bedrooms, two bathrooms, carpeted, double carport,
furnace, and air-conditioning.

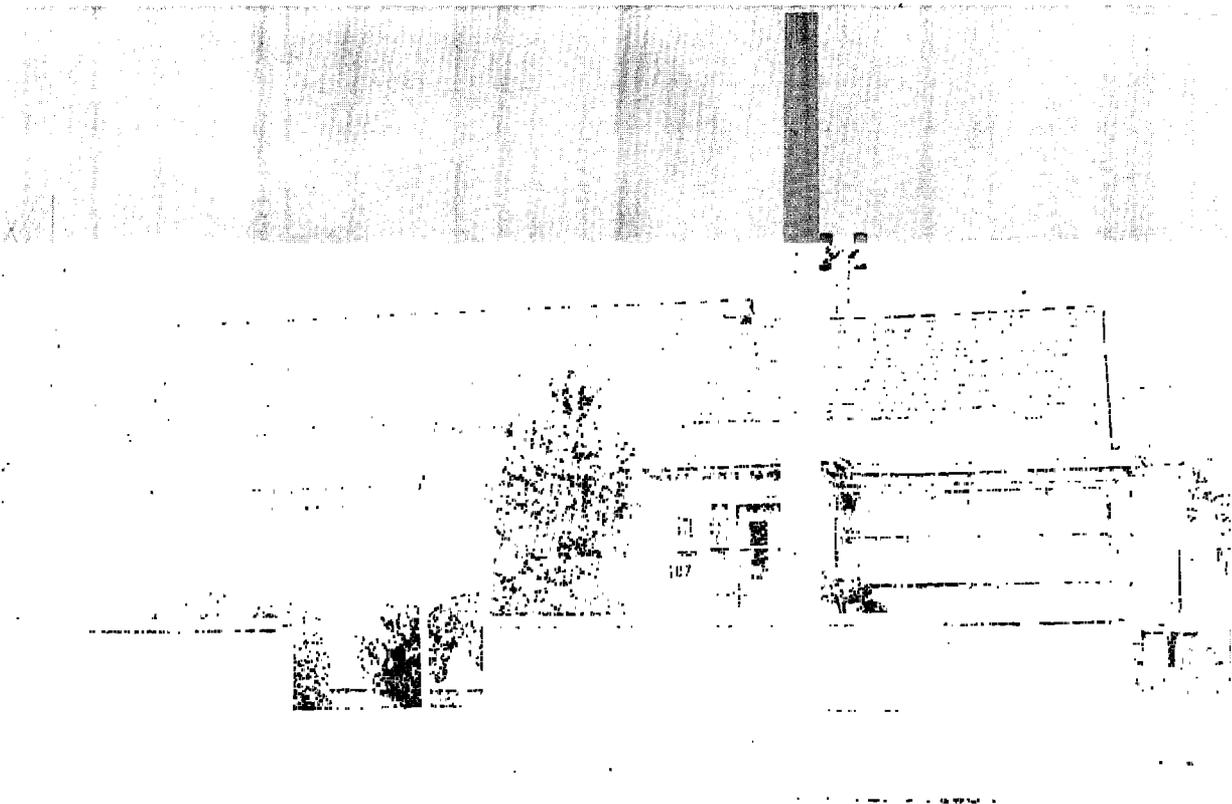


(All costs converted at 308 yen = 1 U.S. dollar.)

Air Force
General Schedule 13
Three dependents

Cost to the Government	\$2,650 a year
Additional cost to the employee	<u>376</u>
Total cost of unit	<u>\$3,026</u>

Three bedrooms, one bathroom, with kerosene space heaters.



(All costs converted at 308 yen = 1 U.S. dollar.)

Air Force
Four dependents

Cost to the Government	^a \$2,836.80 a year
Savings to the employee	<u>288.80</u>
Cost of unit	<u>\$2,548.00</u>

Four bedrooms, one bathroom, with kerosene space heaters.

^aBasic allowance for quarters and station housing allowance.

Several apartments in the Government-owned staff apartment building in Kobe were vacant, and single persons were occupying one four bedroom and one three bedroom apartments. At the same time, the Embassy was leasing four residences (three in Kobe and one in Osaka) at about \$30,000 annually for two USIA employees and two State Department employees. Most of these leasing costs, we believe, could be eliminated by better use of the staff apartment house. Embassy officials stated that, although they must sign leases for other agencies, they cannot dictate to the agencies how their employees will be housed.

Hong Kong

Our review of living quarters for U.S. Government employees showed that 130 were Government leased, 15 were Government owned, and 12 were privately leased by employees receiving quarters allowances.

The consulate was leasing 130 apartments and houses for State employees and consulate-attached employees. At the recent exchange rate, the average cost of the 130 leases, including utilities, was \$9,200 a year, a total of over \$1 million. Annually the leases cost the United States an estimated \$429,000 more than would be paid in living quarters allowances. The consulate also pays many initial fix-up costs; therefore, employees in leased housing incur minimal or no housing costs. A leasing program was established in Hong Kong, not because of inadequate quarters allowances, but because of unusual conditions. One of these conditions was a 17-percent tax imposed on private leases but not on U.S. Government leases. Also rent raises are authorized only on change of tenant. The U.S. Government rents for a longer period than private individuals and rental rate raises are delayed.

Ethiopia

Our review at Addis Ababa and Asmara of about 686 living quarters, excluding uniformed employees living in barracks, showed that 218 were Government leased, 268 were Government owned, and about 200 were privately leased by employees receiving quarters allowances.

The Embassy and other civilian and military agencies were leasing 218 residential quarters which cost about \$891,529, including utilities, at least \$50,000 more than would have been paid in living quarters allowances. The employees interviewed in Addis Ababa were almost completely in favor of Government-leased quarters, because of the high cost of rent and potential problems with host country landlords. We believe these are the most common problems tenants face, both overseas and in the United States. Embassy officials said that these were the major reasons the Government leased houses and provided them to employees. They reviewed the situation in 1972 and decided to continue leasing quarters to employees because there was a sellers market. The combined bargaining power of the Embassy was felt to be better than that of an individual, and the employee would not have to waste time and effort away from his job looking for a house and negotiating a lease.

The reason for the Embassy's continued Government leasing was based, in part, on the assumption that the employee was inexperienced in the field. Most foreign service employees, however, were on their third overseas post. We were told that employees spent considerable time looking for houses that suited them or choosing houses from the Government-leased houses available.

We believe that switching to an allowance system might induce employees to move into less expensive, though adequate, quarters. This would be in accordance with section 741.3 of the Foreign Affairs Manual, which states that the basic policy is to provide housing overseas through the quarters allowance system.

Italy

Our review in Rome of living quarters for U.S. Government civilian employees showed that 46 were Government leased or Government owned and that about 200 employees received living quarters allowances. In Rome, Aviano, and Vincenza we selected 14 residences leased by the Government to provide representational quarters for civilian and military employees which, including utilities, cost \$79,869. Quarters allowances for the same employees would have been \$63,379, or \$16,490 less than the lease costs.

Canada

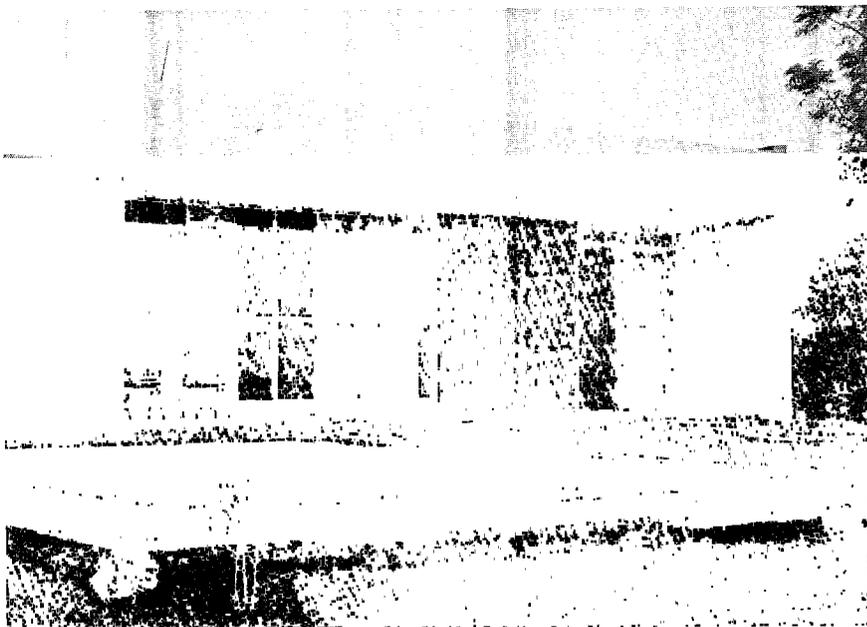
Our review in Ottawa of the living quarters for U.S. Government employees showed that 3 were Government leased, 2 were Government owned, and about 120 were privately leased or owned by employees receiving quarters allowances.

USIA provided the Public Affairs Officer with Government-leased quarters, even though he was junior in grade to several State Department officers who did not have such quarters. He was a counselor of the Embassy and was also entitled to an allowance 50 percent higher than other officers of equal rank amounting to \$6,600. However, the cost of his Government-leased quarters annually exceeded \$8,000, or approximately \$3,100 more than the highest allowance (\$4,900) received by any State Department officer.

Brazil

Our review in Brasilia, Rio de Janerio, Recife, and Sao Paulo of living quarters for U.S. Government employees showed that 127 were Government leased, 84 were Government owned, and 138 employees received quarters allowances. Of

31 Government leased and owned houses, 22 had swimming pools. An official of the Foreign Buildings Operations Office of the State Department said that swimming pools were often desirable for representational purposes and in some cases, as in Brasilia, most residences available for lease had swimming pools.



THE GOVERNMENT LEASES A HOUSE FOR THE AGRICULTURAL ATTACHE FOR \$9,788 A YEAR. LIVING QUARTERS ALLOWANCE WOULD HAVE BEEN \$6,000.

In Rio De Janerio, Government leased and owned quarters were provided to most U.S. employees of the Department of State, AID, USIA, and the Peace Corps. Government-leased quarters for employees of these agencies were occupied by 73 employees although 19 were receiving quarters allowances. Costs for leased quarters were \$472,269. Quarters allowances would have totaled \$360,900. Lease costs averaged \$1,525 a person annually over the allowance.

In Recife Government leases were obtained for the top officials of all agencies. The total cost of four leases was \$25,349; Quarters allowances would have totaled \$19,250. Lease costs averaged \$1,525 more than the authorized allowance. The total cost for 11 privately leased residences was \$43,142, although the allowances for those individuals was \$48,200. The 11 employees receiving quarters allowances on the average were able to pocket \$460.



THE GOVERNMENT LEASES A HOUSE FOR THE CONSULATE OFFICER FOR \$7,380 PLUS UTILITIES AND MAINTENANCE. THE AUTHORIZED ALLOWANCE, INCLUDING 50 PERCENT ADDITIONAL FOR REPRESENTATION, WOULD HAVE BEEN \$7,050.

AID's fiscal year 1972 analysis showed that in Brazil 56 employees lived in Government-leased quarters. Of these, 22 were allowed to select their own houses and Government leases were subsequently obtained at an average cost of \$6,932 a unit. The 34 others accepted houses selected by the Mission, which cost an average of \$6,403.72 a unit. In this case, one of the cited advantages of Government-leased quarters was lost; i.e., relieve employees from the task of house hunting.

Our review also showed that both the AID Mission Director and the Public Affairs Officer assigned to Brasilia had two residences each, one in Brasilia and one in Rio de Janerio.

A USIA housing official in Washington said the Public Affairs Officer had not submitted a request to Washington for the second residence in Rio, which cost at least \$11,899 a year. The second residence had been justified by the large number of representation functions held in Rio, the per diem savings, and the amount of time the officer spent in Rio, which he estimated as 3 days every 2 weeks. Post records showed only five reimbursed representation functions were hosted in the second residence during the first 9 months of fiscal year 1973. In addition, agency officials told us, and our observations confirmed, that alternate facilities

for representation were available in Rio. The estimated cost to support the officer on full per diem (\$2,808) would have been far less than the cost to support him with half per diem and with Government quarters (\$13,303) for the time spent in Rio. Shortly after our discussion of the justification for the second residence, we were told that it was ordered canceled. Later, a USIA official said that these quarters were now being used as transient quarters for agency personnel.

The AID Mission Director also had two residences on the basis of the amount of time he spent in Rio and the need for a place to entertain there. Post records showed no representation vouchers for functions held at the second residence during the first 9 months of fiscal year 1973. The second set of quarters were not unusually large but cost \$8,832 a year. The lease was renewed in March 1973, but terminated on April 30 after GAO discussed the matter with State and AID officials.

Argentina

Our review in Buenos Aires of living quarters for U.S. Government employees showed that 21 were Government leased, 3 were Government owned, and 122 were privately leased by employees receiving quarters allowances.

Government-furnished quarters were obtained for the heads of all U.S. Government agencies in Buenos Aires except the Federal Aviation Agency and the Commerce Department. In addition, Government leases were obtained for several other top officials. There were 21 Government leases for individual residences.

The cost of rent for the 21 Government-leased quarters was about \$170,000 a year; quarters allowances would have totaled about \$124,000 a year. The Embassy had no specific criteria for determining when leasing was in the best interest of the Government.

The reasons for leasing generally were that (1) no suitable quarters were available within the quarters allowance, (2) the Embassy believed the lease was necessary, (3) it was agency policy to lease quarters for top officials, (4) it was cheaper in the long run, and (5) representational quarters were not available within the allowance.

The following photographs are indicative of some of the Government-leased quarters in Buenos Aires.



THE GOVERNMENT PAYS \$10,200 A YEAR PLUS UTILITIES AND MAINTENANCE FOR A HOUSE WITH SWIMMING POOL FOR THE DIRECTOR, BUREAU OF NARCOTICS AND DANGEROUS DRUGS, WHOSE ALLOWANCE WOULD OTHERWISE BE \$5,800. THE ONLY REASON GIVEN WAS THAT IT WAS AGENCY POLICY TO LEASE THE DIRECTOR'S RESIDENCE.



EMPLOYEE WITH 9 CHILDREN STATED HE COULD NOT FIND A HOUSE LARGE ENOUGH WITHIN HIS \$6,000 ALLOWANCE; THEREFORE THE GOVERNMENT LEASED THE HOUSE FOR \$7,020, AND THE LANDLORD AGREED TO INSTALL A SWIMMING POOL.



DIAGONAL VIEW TOWARD FRONT.



VIEW INSIDE WALLED GARDEN

THE GOVERNMENT PAYS ABOUT \$13,000 A YEAR FOR THE HOUSE OF A MILITARY GENERAL WHOSE QUARTERS ALLOWANCE WOULD BE ABOUT \$6,000.

CONTROLS NEED IMPLEMENTING

The housing system involves many managerial and employee self-exercised limitations and controls over housing in order to achieve equality and economy. According to State Department officials, the controls include:

- A rental control board at posts having Government or private leasing programs which would approve maximum rental rates for each unit.
- The Embassy administrative officer evaluating all Government and private leases to insure that the employee selects the lowest cost adequate housing.
- A flat rate quarters allowance system featuring an incentive to obtain lower cost housing, because the employee can pocket the difference between the allowance and the actual lower cost of housing.

Our review showed that these controls have not always been implemented.

Rental control boards not established

The Foreign Affairs Manual requires that a rental control board be established at each overseas post where two or more U.S. Government agencies are short-term leasing residential property or other functional space. It requires also that the board be composed of senior officials from the Embassy, AID, and USIA, as designated by the overseas head, and include representatives from other U.S. Government agencies, the private U.S. sector, and international agencies with which the U.S. Government is affiliated. Board functions include:

- Formulating restrictions or limitations on the leasing of quarters (either private or Government) as necessary and appropriate to curb rental increases.
- Eliminating competitive bidding among Americans (both private and Government).
- Equating the level of rental rates with the quality of functional and residential space secured.
- Ensuring the use of local currency except in rare and fully justifiable cases.

- Conducting periodic surveys to justify and recommend updating of quarters allowances as necessary.
- Justifying and recommending Government leasing (as a last resort) when it is advantageous to the U.S. Government.
- Maintaining lists of inspected housing units with approved maximum rental rates for each unit.

A State Department official said that Washington did not have information showing how many of the 659 posts should have rental control boards or the number of posts that had established boards.

The required rental control boards had not been established in three of the eight countries we visited. An administrative officer at a post where most housing was obtained through private leasing said he believed a rental control board was required only where most housing was Government leased. An officer at another post where most housing was Government owned or leased told us the opposite. Neither post had established a rental control board, although the second post did take steps to establish a board after our discussion.

Employee housing not evaluated

According to an official of the State Department allowances staff, the flat rate quarters allowance system and the rental control board are implicit in the requirement that administrative officers inspect and evaluate the alternative housing available to employees and accept the lowest cost adequate housing. He said that this had not been done because administrative officers did not have criteria for measuring adequate housing and because they did not have enough staff. The Embassies in Argentina and Italy had not established limitations, restrictions, or criteria for private or Government leased quarters. Ceilings had been established in Brazil on the amount that could be paid for Government-leased quarters.

We believe this is one reason management controls over housing are unsuccessful. The Government is to provide only adequate quarters, but, in practice, it also attempts to pay the full cost of employee housing. In other words, the

Government is seeking to standardize what is normally a matter of individual choice. As shown above, no standards have been established for what is adequate housing. Rates are established on the basis of where employees live, and we believe this results in excess costs to the Government.

The military departments in Japan, however, keep very tight control over the type and amount of housing allowances. Each military department had a housing officer who inspected houses that employees wanted to rent. After determining that the house met minimum safety and sanitary standards, he approved the house at a rental value he considered fair. If the landlord insisted on a higher rent, the employee had to either convince the housing officer to raise the value or the landlord to lower his price. If he was unsuccessful the employee could live in the house unapproved or negotiate on his own with the landlord for the extra amount. It was crucial to DOD civilians to live in approved housing because the living quarters allowance would not be paid otherwise. The military personnel are paid at least the Basic Allowance for Quarters and any authorized housing allowance regardless, unless they are occupying Government quarters.

Employees contended that the rental guidelines used by the housing officials were out of date and did not provide for adequate accommodations. The Navy housing officer said that his rental chart was 7 years old and too low for the present economy since there had been a 12-1/2-percent rent appreciation without considering the dollar reevaluation. He was in the process of revising the chart. Also the Air Force housing officer agreed that his rental values were out of date, but he continued using them because the drawdown of American employees at the Air Force bases had created numerous vacancies in the local housing market. Embassy officials contended that many DOD civilians were paying extra undisclosed amounts to landlords and that the approved rents reported to Washington were understated. We were only able to document one corroborating case.

Some civilians, depending on the provisions of the lease agreements, were reimbursed for expenses that others had to pay. If such services as garbage pickup and maintenance were included in the rental, the employee could legitimately be paid up to the maximum allowance.

Flat rate incentives to lower cost quarters have been unsuccessful

Before April 1961, employees were authorized quarters allowance at annual rates equal to their actual expenses but not in excess of a ceiling specified for the post of duty, family status, and grade.

A State Department official said that before April 1961, State and OMB representatives had been concerned about the upward spiraling of housing costs and had agreed an incentive should be built into the allowance system to encourage employees to obtain only adequate housing.

A new system was instituted on April 2, 1961, establishing flat rates. If the employee finds housing below the flat rate he can pocket the difference, thus giving employees incentive to lower the overall cost of housing to the Government because succeeding rates are based on the actual (lower) cost. Also the head of an agency may reduce allowances when an individual employee is found to be living in substandard quarters in order to profit.

We believe that the flat rate system is unsuccessful. At many posts local administrative officers have established policies which nullify any incentive built into the system by limiting allowances to actual cost or limiting the differences which can be pocketed to minor amounts. Some of the specific limitations are as follows.

<u>Post or country</u>	<u>Limitation</u>
Argentina	Lesser of 10 percent of expenses or \$400
Brazil (Sao Paulo)	Actual expense plus 15 percent
Canada	Actual expense plus 10 percent
Italy (Rome)	Actual costs

According to a recent Department of State audit report, these and similar restrictive policies are quite common at posts around the world. The policies resulted from differing subjective opinions at the various posts as to the proper amount that would be retained by the employee over his actual expenses.

Other agencies have still different policies. Peace Corps staff always receive a maximum of actual expenses; DOD civilians receive actual plus 10 percent; and military employees receive the flat rate regardless of actual cost. In Argentina, we noted one case where a military employee received \$3,000 more than actual cost. A State Department administrative officer informed us the post limited the amounts that civilians could pocket because no one should profit on free housing and because the money saved could be used for other Embassy needs.

In Canada, seven employees apply their living quarters allowances to the purchase of private housing. State Department employees annually receive up to 10 percent of the purchase prices of homes which should not exceed their maximum allowance. The 10-percent rule, though, is no longer in the State Standardized Regulations. State's Allowance Committee determined this rule to be adequate and reasonable to compensate individuals who purchase homes.

An exception to the 10-percent rule exists in that State's administrative officer is entitled to an allowance of \$6,600 a year because of his status as a counselor of Embassy. He purchased a house for \$54,000 and would be entitled to an allowance of \$5,400 annually under the 10-percent rule. The Ambassador, however, ruled that his allowance would be \$4,900, because three other counselors of Embassy in Ottawa, Canada, are not receiving over \$4,900 annually.

An Immigration and Naturalization Service official purchased a home for approximately \$27,000; however, he receives the maximum State Standardized Regulations allowance of \$3,400 annually for his grade and family status. His allowance is administered by the INS Regional Office, Burlington, Vermont. According to an official there, the 10-percent rule is not used because regulations do not require it. He also stated that the allowance is based on an employee's actual annual living expenses as reported on Foreign Allowance Application Grant and Report Form 1190, not to exceed maximums set forth in the State Standardized Regulations.

The counselor for administration in Ottawa, in an April 5, 1973, letter to the State Department Allowance Division, requested clarification on the Embassy's role in monitoring quarters allowances paid to members of other agencies in Canada for which the State Department does not handle funding.

The acting Director of the Allowance Staff answered the request in May 1973, stating that agencies have authority to establish their own regulations as long as they do not exceed the provisions of the Standardized Regulations. The allowance staff purposely tries to avoid giving advice on the amount of purchase price because the authorizing officer is supposedly in a better position to evaluate local and individual circumstances.

This is another example of differences which can result between employees at the same post. It also demonstrates inadequate control over the housing program.

Prior difficulties in managing housing

We have observed the housing system for many years and previously noted conditions similar to those outlined above which result in additional cost to the Government. In an April 1971 letter to the Deputy Under Secretary for Administration concerning Government-leased quarters and the living quarters allowance, we reported that:

1. The leasing program at several posts exceeded the authorized living quarters allowance which would have been provided in lieu of leasing quarters. In some instances, the leased quarters appeared to exceed normal need.
2. More definitive guidelines and management controls were needed concerning when leased quarters would be provided in lieu of living quarters allowances.
3. Employees were (a) residing in high cost areas for personal reasons rather than for official purposes, (b) leasing quarters exceeding adequate needs, and (c) reporting estimated expenses in excess of actual costs. These factors were to be considered in establishing living quarters allowance rates.

The State Department response in July 1971 stated that the present regulations provided adequate guidance for Government-leased quarters. Also rental control boards are required and have been effectually established at many posts. All posts were reminded to improve procedures which would eliminate leasing quarters in excess of actual needs.

According to the response some living quarters allowances have not been updated and, therefore, the difference between lease costs and living quarters rates may not show the true picture. The response also said Government leasing was advantageous when necessary to provide larger and costlier representation quarters, when housing is scarce, and when escalating rent costs can be held down by leasing for longer periods. State noted that escalating violence overseas often forced employees to seek housing in restricted areas which were often more expensive.

We agree that, in some cases, the living quarters allowance may be low for the purpose of showing the exact cost of Government leasing; however, our review showed that Government lease costs are also usually higher in locations where living quarters allowances are current. In any event, the allowances seem to be the best data available for comparisons. Consequently, we believe the data to be suitable for estimating the incidence of extra cost.

We also agree that there are a number of legitimate reasons for Government leasing which justify the extra costs. The living quarters allowance can be expected to spiral upward because of general inflationary tendencies in most countries. In our opinion, some of the excess costs are not incurred for these reasons and appear to be more a product of a search for prestigious and better quarters. We also believe that management controls should be improved and existing controls fully implemented.

LIVING QUARTERS ALLOWANCE BASED ON WHERE EMPLOYEES CHOOSE TO LIVE

The Secretary of State is responsible for establishing living quarters allowance rates for all civilian employees assigned overseas. This responsibility has been assigned within the Department to the Allowance Staff.

State sets the allowance rates so that about 50 percent of all employees of all agencies in private rentals are fully reimbursed for their housing costs. When an analysis indicates that costs are considerably more than their maximum flat rate, the allowance is increased.

All Government civilian employees receiving living quarters allowances at a post are required to submit an annual

report of their latest actual quarters costs to the Allowance Staff. This data is reviewed by the Staff which determines whether rates for a particular post should be revised upward or downward.

Rates are established primarily upon cost data furnished by the employees and are set and adjusted by the amounts by which employees' housing costs depart from this rate. Little consideration is given to disparities in expenditures, location, and type of housing occupied by the personnel assigned to the post.

Upward pressures on living quarters allowance

A normal desire to have the best feasible quarters plays a role in raising the living quarters allowances. For example, in Argentina a number of employees pay more for housing than the amount of their housing allowance even though other employees find adequate housing within or below their allowances. The willingness to pay out of pocket may be related to several factors, such as the desire to have prestigious housing and facilities, such as a swimming pool. We were advised by an employee and a dependent in Buenos Aires that one employee negotiated a higher lease with his landlord on the condition that a swimming pool be installed and that other employees actively search for prestigious old mansions and are later unhappy when they find faults, such as the plumbing is not as efficient as in smaller, newer houses.

Willingness to pay out of pocket may also be related to an underlying knowledge of the incentive flat rate system. If most employees always pay some out of pocket, the rate spirals up and all employees benefit; whereas if most employees leased lower cost housing, the rate would go down to a point where employees would be living in substandard housing and no longer receive in-pocket amounts.

In view of the great variety of housing and prices available in Buenos Aires, the higher cost housing is very likely the product of a search for better quarters.

Such striving for prestige, additional facilities, and personal satisfaction is normal and expected behavior, especially under a system based on the principle of housing which invites such behavior. Employees with a convincing

argument, a tenacious approach, or a ready adaptation to the system will surely benefit. In our opinion, the Government should usually make no attempt to regulate matters of personal choice, but should design a housing system that does not support the additional costs of housing above an established standard.

The following photographs show the variety and price ranges of housing in the Buenos Aires residential areas most popular to U.S. employees.

AGENCY COMMENTS AND GAO EVALUATION

Only the State Department commented on the matters discussed in this chapter, as follows.

"The question of providing adequate housing to our employees overseas in the most economical way is under review in the Department. There are circumstances where the only feasible approach to this problem is the use of government-leased housing, and there are other situations in which the government can lease or buy housing at substantially less cost than the employee."

We recognize, and discuss on pages 81 and 82.) the desirability for Government leasing in certain circumstances. In a 1971 report to the Secretary of State, we recommended that management controls over leased and other housing be improved. State believed that the regulations in effect at that time provided adequate controls. Our current review once again shows a need for positive improvement. The State Department advised us they were studying these matters.

MOST POPULAR BUENOS AIRES RESIDENTIAL AREAS



**EMPLOYEE WITH FIVE DEPENDENTS RENTS
A HOUSE FOR \$3,000 A YEAR.**



**EMPLOYEE WITH FOUR DEPENDENTS RENTS A
6-ROOM 2-BATH HOUSE FOR \$6,000 A YEAR.**

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The benefits and allowances provided to U.S. Government civilian employees incident to transfer and service outside the U.S. continental limits have evolved over the past several decades into a potpourri that lacks common standards and involves statutory inequities. This system is inflexible and difficult to efficiently manage, resulting in numerous differences among employees. It may not be serving the purpose intended and may be resulting in unnecessary costs to the U.S. Government. We also noted morale problems as a result of differences. Moreover, when the system for civilian employees overseas is compared with that of uniformed personnel overseas, numerous other disparities arise.

We believe the need is great and the time opportune for a fundamental reform in the overseas benefits and allowances system. Basically this reform should include (1) a unified system with common legislative authority, (2) an independent policymaking body, and (3) a purpose-oriented system to include a flexible recruitment and retention allowance and to provide greater assurance that employees neither lose nor gain financially from nonpremium benefits and allowances, and (4) collective visibility and annual reporting to Congress. Improvement is also needed in management controls over Government-provided housing.

Need for a uniform system with common legislative authority

Four systems provide benefits and allowances to Government civilian employees overseas. As a result, in many instances employees with equal grade and circumstances receive different benefits and allowances, even at the same post. These differences have been a continuing source of complaints by employees for many years. During the last three decades, the emphasis has been on how to equalize overseas benefits and allowances. Some progress has been made, such as in the Overseas Differentials and Allowances Act of 1961 which equalized certain benefits and allowances

for all Government civilians. Nevertheless, many differences remain which are a continuing source of complaints by and frustrations to employees.

The four systems of overseas benefits and allowances grew up separately and, even though efforts have been made to equalize benefits and allowances, the separate systems and different legislative authorities still prevent satisfactory equalization.

We believe that equalization can be accomplished by establishing a unified body of rules for all U.S. civilian employees outside the continental United States and including Alaska based on common legislative authority. Even though certain differences may still be justifiable between different groups or classes of employees, a common base should be established. When differences are necessary or desirable, they should be specifically justified in terms of the purposes for which authorized.

A greater variety of circumstances exist with respect to uniformed personnel overseas. For instance, justifiable differences would arise in the case of uniformed personnel living in barracks. Those allowances designed to compensate for extra costs of living overseas may not be fully applicable, inasmuch as uniformed personnel receive full room, board, and medical care at Government expense.

Until a uniform system is ultimately developed for all U.S. Government employees overseas, the differences will continue to cause inequities and be a source of continuing complaints by employees.

During our review, we raised the question of whether uniformed personnel should be included with civilians in a common system. The agencies were of the opinion that they should not because of the many different circumstances, conditions of employment, and the salary structures.

Our office is also currently reviewing the overall military pay and allowance system. We believe that, after these studies are completed, consideration should then be given to the desirability of including uniformed personnel in the system.

Agency comments and GAO evaluation

Of the six agencies commenting on these issues:

- OMB agrees that a unified system should be established except that it would be difficult to achieve uniformity between benefits and allowances granted to civilian and uniformed personnel. Elements of the military pay structure, including housing and subsistence, are part of what is recognized as the military equivalent of a civilian salary. OMB believes it would first be necessary to have both systems on an equal footing.
- CSC agreed that the need for a uniform system is long overdue. It believes there is a need for exception with respect to uniformed personnel.
- The General Services Administration agrees there is need for a uniform system.
- The Atomic Energy Commission agrees there is need for a uniform system.
- State and AID do not agree that a unified body of policy and standards should be established. The points of disagreement are highlighted as follows:
 - The report describes what might be the intent and objectives of a new allowance program without reference to the clear intent of existing legislation.
 - The report disregards the need to distinguish between differing circumstances and conditions of service in establishing allowance levels.

Our review included examination of the legislative history of benefits and allowances back to 1916. Many differing objectives were considered during the ensuing half century which reflected differing social, economic, and political viewpoints. As discussed on pages 38 and 53 the major considerations were always recruitment and retention of employees or reimbursement for costs they would not incur in the United States. These objectives are valid today and continue to be the major objectives in our proposal

for a unified system. Our proposal primarily relates to the establishment of a unified body of policy and standards to insure that these objectives are most efficiently and effectively implemented, not to changing these objectives. Throughout the legislative history, one additional important object is brought home again and again; i.e., the principle of equity. The Overseas Differentials and Allowances Act of 1961 highlighted congressional desire for equity between civilian employees. In our opinion, the maintenance of separate systems is a major obstacle to effective and efficient equalization.

As pointed out by the State Department, differing circumstances and conditions of service should be distinguished in establishing allowance levels. We believe the differing circumstances and conditions can best be evaluated in a unified system which will provide an opportunity to compare all the circumstances and conditions. In that way differences can be limited to only those specifically justified on the merits. Any differences not so justified are inequities and are counterproductive when adverse employee morale results.

State and AID did not agree that a unified system should be established for civilian employees in foreign and non-foreign areas.

Need for an independent policymaking body

The unified system of benefits and allowances should be established under a policymaking body.

Many of the differences and resulting inequities are caused by different agency regulations and the different ways discretion is exercised by local officials. We believe the best way to minimize these problems is to establish the system under an independent policymaking body to insure equitable treatment of employees overseas.

In addition, we noted upward pressures on some of the benefits and allowances because of the influence of overseas employees themselves and of managers directly responsible for large numbers of overseas employees. Employees provide much of the raw data used to compute rates and the managers must approve or deny some allowances.

Agency comments and GAO evaluation

OMB advised us that, based on its own studies as well as this study, it believes considerable improvement can be achieved in the administration of overseas benefits and allowances. It believes that the overseas benefits and allowances system for civilian employees should be administered by one independent policymaking body and advocated CSC. OMB believes that administration of overseas benefits by CSC would insure a detailed, equitable assessment of their impact on total compensation of Federal civilian employees.

CSC endorsed the proposal that it be responsible for administering a uniform Government-wide program. GSA and the Atomic Energy Commission also agreed that there is a need for one policymaking body. The Atomic Energy Commission believes an agency with employees overseas should be responsible, and GSA suggested a permanent Federal Allowance Committee having representatives from interested agencies. The State Department and AID disagreed and took the position that administering the allowances program for all U.S. Government civilian employees in foreign areas is an important element of the Secretary of State's responsibility for coordination and direction of overseas operations and a key factor in maintaining an effective U.S. presence overseas. State Department employees overseas represent about 15 percent of the total U.S. civilian employees overseas.

Need for a purpose-oriented system

Certain allowances, such as the housing allowance, are designed to serve more than one purpose. Effective management dictates that each allowance and benefit should be designed to serve only one distinct purpose.

The overseas premium should be separate and distinct from other allowances and should serve solely as a recruitment and retention incentive. All other allowances should reimburse or otherwise compensate employees serving overseas for the extra cost of maintaining a standard of life equivalent to that which could be maintained in the United States

and should result in neither financial gain nor loss for the employee.

The overseas premium--which consists of the basic housing allowance and the post differential--is not directly related to solving specific recruitment and retention needs at individual posts. Since inception, the recruitment and retention value of housing allowance has remained static. No attempt has been made to relate it to recruitment and retention needs of an individual post. The housing allowance is being provided to each of the more than 600 foreign posts but indications that it may not be needed at all posts as a recruitment and retention incentive include:

- Some agencies have waiting lists of employees volunteering to serve at selected overseas posts.
- The Foreign Service currently has about 150 applicants for each opening.
- During our field visits, certain employees said that they would serve at their posts even if a housing allowance or other premium was not furnished.
- Available evidence indicates that U.S. agencies have no trouble recruiting and retaining employees for overseas posts.

The post differential, while occasionally adjusted for some posts by increasing, reducing, or eliminating the allowance, is not directly related to solving specific recruitment and retention needs at individual posts. Despite the general improvement in living conditions at various posts throughout the world during the past two decades, we noted approximately half of all posts have consistently been authorized post differentials, as follows.

<u>Year</u>	<u>Total number of posts</u>	<u>Number authorized differentials</u>	<u>Percent</u>
1955	572	337	59
1960	643	310	48
1965	696	331	48
1970	698	363	52
1973	659	341	52

Nonpremium benefits and allowances are those which should be authorized and justified as necessary to permit the employee to maintain a standard of life equivalent to that which could be maintained in the United States. As discussed in chapter 5, however, several factors are resulting in financial gain to employees. We believe these factors were given insufficient consideration in arriving at the package of nonpremium allowances.

The overseas allowances and benefits system needs to be refined so that the entire package is administered and periodically monitored in terms of authorized fundamental purposes. Such a system should permit the elimination of the overseas premium for the more popular and desirable posts and provide a recruitment and retention incentive when the premium is necessary.

An alternative to the present premium system would be to eliminate separate housing and post differential allowances and make a single cash payment directly related to recruitment and retention needs. The cash payment could vary by post to take conditions, such as hardship, into account. The extra cost of housing in some overseas locations could then be provided as an element of the cost-of-living allowance and representational housing could be provided as a business expense. This proposed system would have the advantages of more efficient management of recruitment and retention payments and relieve the State Department of the task of setting standards to control the type of housing for employees.

What constitutes adequate housing is a personal matter, and attempts by the State Department to manage the type of housing that employees live in has largely been unsuccessful. This alternative would still permit the Government to secure housing and to lease it to employees on either a nonprofit basis or at a going-rate basis independently determined in the case of Government-owned or long-term-leased property.

Agency comments

Only OMB, of the six agencies responding to our report responded to this issue. OMB stated that it may be difficult to determine from the statutes or their legislative

histories the exact purpose of each overseas allowance or benefit. It would favor a thorough review by CSC of the fundamental purposes.

On reevaluating the system for paying overseas premiums, OMB stated:

"A major finding in OMB's June 1973 study was that a review was needed to determine whether too many overseas posts qualified for hardship pay. While a recent State Department task force study did undertake to redefine and update the criteria for hardship to reflect conditions currently existing overseas, it did not face the issue of whether the general level of hardship has declined in foreign assignments over the last twenty years and whether considerably less than 50 to 55% of all foreign posts need retain a hardship designation. If the Civil Service Commission is delegated authority to administer the post differential, we would strongly urge them to reevaluate the existing hardship criteria and point rating systems that determine which and how many posts qualify for a post differential. The reevaluation should include assessment of what is necessary for recruitment and retention purposes and consideration of paying for hardship on a flat rate basis per employee, rather than as a percentage of salary.

"We agree that the matter of paying housing allowances--the other major element of the overseas premium--should be carefully evaluated from the standpoint of cost and equity, and that an intensive review of the area is warranted."

Need for collective visibility
and annual reporting to the Congress

No adequate reporting system has been developed. The total cost of each benefit and allowance, number of employees receiving them, and locations where they are paid should be accumulated and reported for consideration of both the Congress and the executive agencies in considering

whether each benefit and allowance is needed and whether payments are adequate or excessive. The report should include information on the value of all benefits and allowances, including Federal, State, and local tax advantages, received by individual employees; relief from any other living expenses by virtue of overseas assignments; other benefits and allowances granted by foreign countries; and any other benefits and allowances incident to overseas assignment.

Reports on total compensation and benefits packages and the number of employees receiving benefits and allowances are essential for effectively managing the program and for establishing necessary ceilings.

Agency comments

OMB agrees that pertinent cost data should be gathered on each allowance and benefit and suggested that this data should be integrated with CSC's current system of pay and employment statistical reporting. The other respondents did not comment on this point.

RECOMMENDATIONS

We believe there are several acceptable options for developing and monitoring the implementation of uniform policies and standards for overseas allowances. We recommend that the Director, OMB should decide on the most appropriate option. Options to be considered include:

- Giving CSC this responsibility.
- Establishing an overseas allowance committee chaired by OMB.
- Making the Ambassador in each country responsible for developing and recommending to an appropriate body the equitable allowance policies and standards for employees in each country.

Also, we recommend the Director, OMB, should:

- Require that authorizing legislation be sought when needed.

- Require (1) clarification of the fundamental purpose of each allowance and benefit, (2) development of objective standards for agency use in evaluating and reporting on their effectiveness, and (3) aggregate annual reporting on the cost and effectiveness of the program to the Congress.

- Adopt a flexible system for paying overseas premiums that will be responsive to recruitment and retention needs and to changes in the employment market. This will require reevaluation of the continued need for the housing and post differential allowances as essential for recruitment and retention. If continued, consideration should be given to (1) appropriateness and desirability of adopting a policy of paying excess cost over that normally incurred at the employees' stateside homes and (2) improving controls of housing leased through the Government.

- Determine whether, and the extent to which, financial savings accruing to an overseas employee from not paying State and local taxes should be considered in setting benefits and allowances.

- Develop an education program for overseas employees on benefits and allowances.

Agency comments

OMB agreed that an independent policymaking body should be responsible for administering a unified system for civilian employees and advocated a system administered by CSC. OMB officials subsequently informed us that they were drafting an executive order which if approved will transfer responsibility for the most significant benefits and allowances to CSC. Legislation will be required to transfer others.

OMB also agreed that fundamental purposes should be clarified, the overseas premium system reevaluated, and an appropriate reporting system developed. It believes that the overseas premiums and housing and hardship differentials should be reevaluated.

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